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GOVERNMENT OWNED CORPORATIONS

by

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NEW YORK
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TO

MY WIFE

VIRETTA CALHOUN VAN DORN

whose loyal coöperation and sympathy have
been a constant source of inspiration

PREFACE

The purpose of this study is to trace the growth and analyse the possibilities of Government Owned Corporations. This type of governmental agency is a development largely of the last ten years, but due to the stimulus of the late war we have had an unusual amount of experience with it in a comparatively short time. Only by a study of this experience can we make a valid estimate of its future usefulness as an administrative agency.

This study was suggested to the author by Professor Arthur W. Macmahon, to whom the writer is greatly indebted, both for valuable suggestions in the prosecution of the research and for a careful reading and criticism of the manuscript. He is also indebted to Professor Howard Lee McBain for a similar reading and many helpful suggestions.

HAROLD A. VAN DORN

New York City, March 22, 1926

CONTENTS

I	Evolution of Government Owned Corporations	1
II	Federal Land Banks	16
III	Emergency Fleet Corporation	43
IV	United States Grain Corporation	81
V	War Finance Corporation	121
VI	United States Housing Corporation	139
VII	United States Sugar Equalization Board	170
VIII	Federal Intermediate Credit Banks	198
IX	Inland Waterways Corporation	206
X	Minor Corporations	227
XI	Administrative Problems	258
XII	Legal Problems	280
XIII	Future of Government Owned Corporations	296
	Index	309

GOVERNMENT OWNED CORPORATIONS

CHAPTER I

EVOLUTION OF GOVERNMENT OWNED CORPORATIONS

As civilization becomes increasingly complex the problems of government likewise become more and more complicated. New plans, new methods, new agencies are constantly being devised to deal with these problems. A distinct need has been felt in recent years for some new type of agency to handle the various business and commercial enterprises upon which the government has embarked. Our governmental machinery was not originally designed to carry on this type of enterprise. Therefore it is not surprising that its attempts in this direction have been awkward, inefficient, and sometimes fraught with failure. Whether these enterprises were administered by bureaus, boards, commissions, or other agencies, they lacked certain fundamental characteristics possessed by privately administered enterprises.

First of all they were not autonomous organizations free from the strain and stress of political influence and political interruption. While the administrators kept one eye on their work the other was warily fixed on the Congressional barometer to

anticipate a change in policy or an impending storm. Second, they did not possess a flexible administrative organization. Whereas a private business could create a new department or abolish an old one over night, the organization of a government enterprise was fixed, often by statute, and could be changed only by an act of Congress or a new appropriation. Third, the relation of the governmental enterprise to the public with which it dealt was always complicated by the fact that as a department of the government it must conform to government practices, government policies, and government accounting. These three factors and others of lesser importance tended to place the government business organization at a disadvantage when compared with private organizations. What was needed then was a governmental agency which possessed the independence, the administrative freedom and the flexibility of a private business corporation, yet which could be made to serve public purposes. In an attempt to create such an agency a new type of corporation has been developed.

This corporation is a business corporation designed to serve public rather than private ends. Its powers and privileges are much the same as those of private corporations but it is distinguished by the fact that its capital stock is owned entirely or largely by the government. Thus the government in addition to the ordinary control which it exercises over all corporations exercises over these corporations

a special and distinctive control by means of this ownership of the capital stock. Since the government ownership of the capital stock of these corporations is their most distinguishing characteristic, the term GOVERNMENT OWNED CORPORATION seems more descriptive than any other that is available and will therefore be used in the following treatment.

Earlier types of corporation differed from the present government owned corporation not only in the ownership of the capital stock but also in their general relation to the government. A brief account of these earlier types will therefore be given to enable us to view in clearer perspective this latest addition to the corporation kingdom.

Corporations are said to have originated long before there was any legal recognition of them. They are natural growths like the family and the clan. They were not originally authorized by law any more than was the family but the law early recognized them as existing institutions. Corporations of this type were well known in Greek and Roman times. During the reign of Augustus they flourished in the Roman Empire without restriction except when their activities became injurious to the state in which case the police power was used to coerce them.[1] These earlier corporations existed more often for religious and social than for busi-

[1] Radin, Max. *The Legislation of the Greeks and Romans on Corporations.* Columbia University, 1909. Pp. 92, 93, 97.

ness purposes.[2] In fact business corporations, the immediate forerunners of government owned corporations, did not become numerous until comparatively modern times. As compared with other types of corporation the business corporation was rare even in the seventeenth and eighteenth centuries, tho several famous examples may be found in this period.

The East India Company established in 1600 is one of the best known English examples. In America the Virginia colony, founded at Jamestown in 1607, was fostered by a similar corporation. The company which promoted it was modeled after the East India Company and its corporate powers were conferred by charters in 1609 and 1612. Over one hundred of the shareholders of the East India Company were shareholders in the Virginia Company.[3] That the interests of these shareholders were primarily in private gain rather than in the spread of religion may be gathered from the following quotation, taken from a sermon preached by the Rev. W. Crashaw in London on Feb. 21, 1610, before various officers of the Virginia colony about to leave for America. Deploring the lack of the religious motive he says, "Tell them of getting XX. in the C. (20%). Oh how they bite at it, oh how it stirres them? But tell them of planting a church, of con-

[2] *Ibid.*, p. 140.

[3] Davis, Joseph Stancliffe. *Essays in the Earlier History of American Corporations.* 2 vols. Harvard University Press, Cambridge, 1917. Vol. 1, pp. 32, 33.

verting 10,000 souls to God, they are senseless as stones, they stirre no more than if men spoke of toies and trifles." [4]

This company like the Plymouth company was short-lived. Its charter was annulled in 1632 and the Plymouth Company surrendered its charter three years later.[5] On the other hand the Hudson Bay Company, which was granted a charter in 1670, is still in existence.[6] In connection with this company it is interesting to note that even at this early day the custom of offering special inducements to influential persons to interest them in private undertakings was not unknown. The promoters of the Hudson Bay Company first secured the backing of Prince Rupert and then enlisted the interest of the Duke of York by presenting him with the gift of a 300 pound share of stock. Thus reënforced, the stockholders, with these two names at the head of the list, made application for a charter which King Charles II, speedily granted.[7] Among the famous business corporations of the seventeenth century should perhaps also be mentioned the Dutch East India Company, established in 1602. It was

[4] Brown, Alexander. *The Genesis of the United States.* 2 vols. Houghton Mifflin and Company, New York, 1897. Vol. 1, p. 362.

[5] Davis. *Op. cit.,* pp. 33, 34.

[6] Scott, William Robert. *The Constitution and Finance of English, Scottish, and Irish Joint-Stock Companies to 1720.* 3 vols. University Press, Cambridge, 1910. Vol. 2, p. 229.

[7] Bryce, George. *The Remarkable History of the Hudson's Bay Company.* S. Low, Marston and Company, London, 1900. Pp. 9, 12.

in the service of this company that Henry Hudson was sailing when he discovered the Hudson River.

In the eighteenth century we find an increasing number of corporations in the colonies but still very few of the business type. There were what we have learned to call public or municipal corporations, charitable and educational corporations, and most numerous of all the ecclesiastical corporations.[8] Of what might be termed public service corporations—a type that must perhaps share with the business type in the parentage of the present government owned corporation—there were several examples. The most interesting were the water supply companies, called fountain societies, of which six were established. Of the colonial business corporations only one, The Philadelphia Contributionship for the insuring of Houses from Loss by Fire, has had a continuous existence to the present time.[9]

In the American colonies only two business corporations were established in the seventeenth century, and only seven in the eighteenth up to the time of the Revolution. After the Revolution and especially after 1789 they increased rapidly, more than three hundred business charters having been granted by the end of the century.[10]

Even with this increased growth the business corporations at the end of this period comprised less

[8] Davis. *Op. cit.*, pp. 75, 82.
[9] *Ibid.*, pp. 88, 89.
[10] *Ibid.*, vol. 2, pp. 4–8.

than four per cent. of all the corporations chartered.[11] Prior to 1800 it may be said that, with the exception of banking institutions, the time was not ripe for the rapid extension of the business corporation. None but the banks had a capital over a million dollars. Insurance companies and toll-bridge companies were as a rule successful but navigation companies were generally a disappointment to their stockholders. Of the eight manufacturing companies not one had paid a dividend, several had dissolved, and nearly all had suspended operations.[12]

The nineteenth century, however, and especially the latter half of it, witnessed a tremendous growth in both those types of corporation from which the present government owned corporation may be said to have sprung, that is, the business corporation and the public service corporation. The growth of the latter was due largely to the advance in science and the tremendously increased demand for housing and transportation conveniences. The growth of the former went hand in hand with the industrial and economic development of a rapidly expanding and highly prosperous new country.

When business corporations were few in number it was customary to provide for them by special acts of the legislature. For example, when Aaron Burr wished to establish a banking corporation in

[11] *Ibid.*, vol. 2, p. 25.
[12] *Ibid.*, vol. 2, pp. 291–292.

the city of New York in 1799 he went to the New York legislature. Fearing the opposition of the Bank of the United States, which was under Federalist control, he concealed his purpose by applying for a charter for a company whose ostensible purpose was to supply New York City with fresh water in order to lessen the danger of the prevalent typhoid epidemics. After the charter was granted, tucked away in an obscure passage was discovered a phrase giving to the Manhattan Company the privilege of carrying on banking functions and as a result the Bank of the Manhattan Company was established.[13] A very inadequate amount of water was supplied to the city by this company but the banking side of its business grew and flourished until it has today thirty branches and a capital of $10,000,000.

By the middle of the nineteenth century the incorporation of business enterprises had become so common that most of the states had passed general incorporation laws. A general act for the incorporation of manufacturing companies was passed in New York in 1811, in Massachusetts in 1836, in Michigan and Connecticut in 1837, and in Indiana in 1838.[14]

[13] Myers, Gustavus. *The History of Public Franchises in New York City.* Reform Club Committee on City Affairs, New York, 1900. Pp. 85–86.

[14] Thompson, Guy A. *Business Trusts as Substitutes for Business Corporations.* Thomas Law Book Company, St. Louis, 1920. P. 7.

Since municipal, ecclesiastical, and charitable corporations preceded the business corporation the immortality of the corporation was formerly considered its chief attribute but this is not the characteristic primarily responsible for the tremendous growth of the business corporation. The chief attraction of the corporate form of organization for modern business interests has been its limited liability, which grew out of the idea that a corporation is an artificial person entirely distinct from those who form it, therefore its debts and obligations are not the debts and obligations of the stockholders. It is this characteristic which accounts for the enormous number and variety of modern business corporations.

There are today in the United States more than 325,000 business corporations.[15] These corporations paid taxes in 1925 on a capital stock which, after excluding each corporation's capital below $5,000, totaled over 90 billion dollars.[16] Most of our manufacturing is now done by corporations and the percentage grows larger each year. In 1904 the value of the products manufactured by corporations was 73.7% of the value of all manufactured goods. Five years later, in 1909, it had risen to 79%. In 1914 it mounted to 83.2%, and in 1919 it had reached 87.7% as compared with 5.7% carried on

[15] Report of Commissioner of Internal Revenue. Government Printing Office, Washington, 1923. P. 12.

[16] Report of Commissioner of Internal Revenue. Government Printing Office, Washington, 1925. P. 10.

by individuals and 6.6% by coöperative associations and miscellaneous forms of organization.[17] It is in an attempt to appropriate some of the advantages which have brought into being this vast array of business corporations, that the government has experimented with this type of organization in an effort to solve some of its own business undertakings. Let us turn then to these enterprises and see to what extent the government has been successful.

The first important, tho not the first known, examples of government owned corporations were provided for on July 17, 1916, when the President approved the Federal Farm Loan Act, which made provision for the establishment of twelve Federal Land Banks.[18] Tho the government ownership of the majority stock in these banks was merely temporary, they furnish the first large-scale example of this type of corporation. This might have remained for many years the only important example of this type of corporation had we not become involved in the World War which, with its multitude of urgent and unaccustomed problems, furnished the opportunity and the stimulus for a further extension of this type of governmental agency.

Just ten days after war was declared by the United States the Emergency Fleet Corporation

[17] Fourteenth Census of the United States. Government Printing Office, Washington, 1923. Vol. VIII., p. 119.

[18] 39 U. S. Stat. at L. Pp. 360–384.

was organized.[19] Provision for this corporation had been made the preceding year in the act establishing the United States Shipping Board[20] but its actual incorporation was delayed until after our entry into the war. This was followed four months later by the organization of the United States Grain Corporation,[21] and in the following year three more corporations were created. These were the War Finance Corporation,[22] the United States Housing Corporation,[23] and the United States Sugar Equalization Board.[24]

Thus in a period of sixteen months we established five government owned corporations. That this experiment was not tried on a small scale is evident from the capitalization of these corporations. Only one had a capitalization less than a hundred million dollars, two had a capitalization of half a billion dollars each, and one had a capitalization of approximately three quarters of a billion dollars. When we plunged into the experiment we plunged hard and staked nearly two billion dollars on the venture. This is nearly four times the working capital and undivided profits of the United States Steel Corporation, one of the largest private cor-

[19] United States Shipping Board. First Annual Report. Government Printing Office, Washington, 1917. P. 7.

[20] 39 U. S. Stat. at L. Pp. 728–738.

[21] Executive Order 2681. Aug. 14, 1917.

[22] 40 U. S. Stat. at L. Pp. 506–515.

[23] *Ibid.*, pp. 550–553.

[24] United States Food Administration. Annual Report for year 1918. Government Printing Office, Washington, 1919. P. 23.

porations in the United States.[25] That Congress within a period of a few short months should entrust such vast sums of money to a type of governmental agency with which it had had little or no experience is exceedingly strange; its precipitate haste can be accounted for only by the pressing necessities of the hour under the stress of the war emergency. The importance of a careful study of the outcome of these great experiments is obvious, for on its results may depend the method of handling many future government enterprises in the success or failure of which every citizen will be concerned.

Already many plans have been suggested for extending this type of enterprise and since the war two additional corporations have become accomplished facts. In 1923 Congress established twelve Federal Intermediate Credit Banks with stock ownership resting in the government,[26] and on June 3, 1924, the latest addition to the government owned corporations was made by the creation of the Inland Waterways Corporation.[27] Two other proposals for the establishment of corporations of this kind have been favorably reported on by the committees having them in charge and are being considered by Congress. These are the proposals to

[25] United States Steel Corporation. Twenty-second Annual Report for year 1923. Hoboken, New Jersey, 1924. P. 8.

[26] 42 U. S. Stat. at L. Pp. 1454–1482.

[27] 43 U. S. Stat. at L. Pp. 360–363.

create a Federal Power Corporation at Muscle Shoals, and an Agricultural Export Corporation to sell abroad our agricultural surplus each year.

The administrative and legal problems connected with this new type of corporation are many and varied. The nature of these problems will be only suggested here and will be discussed more at length in later chapters after a description of the organization and work of each corporation has been given.

Under administrative problems must be considered the degree of independence and autonomy desirable for these corporations. One of the objects of incorporation is to free the organization from the handicaps of a uniform system perhaps well designed for the general functions of government but not always suited to specific business and commercial undertakings. Yet however desirable this independence may be there obviously are limits beyond which the agency may not go if it is to be of public service. Some control being necessary the problem of how it shall be exercised immediately arises. Shall the administrative officer in whom is usually vested the ownership of the capital stock exercise direct supervision or shall the board of directors be the controlling influence? Shall Congress be divested of all authority to interfere in the administration of the corporation's affairs or may it exert pressure thru the executive officer holding in trust the capital stock? Other questions arise in connection with the administrative personnel. Who

shall appoint the officers and directors; shall their terms be fixed and overlapping; how shall their compensation be determined? In the lower ranks shall Civil Service rules be followed? Further problems occur in connection with district organization, duplication of work performed by other agencies, and coöperation with the regular departments of government. Important questions also center about the budget. Shall the corporation depend on Congressional appropriations to meet deficits? Shall surpluses be turned into the Treasury? What restrictions if any shall be placed on borrowing? Shall the primary object be to make the corporation pay dividends?

Under legal problems should be considered the method of incorporation. Should the incorporation be effected in a state, in the District of Columbia, or by direct act of Congress? If incorporated in a state ought its status to differ in any way from private organizations so chartered? The suability of these corporations must also be considered. As public agents ought they to partake of the immunity from suit which resides in the sovereign, or should they have the same liability as private corporations? If such liability is desirable should it be provided for by statute? And finally there is the problem of taxation. May the state which incorporates the agency and gives it protection tax it as it does other corporations? May local units of government tax its property or does it hold a privileged position

in the state? Most of the above problems arise in connection with all the government owned corporations but special and distinctive problems also occur due to the peculiarities of individual corporations. These will be dealt with after the peculiarities have been discussed.

The subsequent chapters will deal separately with each of the government owned corporations, the important ones being considered in chronological order. Following this two chapters will be devoted to a comparative study of such of the legal and administrative problems as are common to all.

CHAPTER II

FEDERAL LAND BANKS

The Federal Land Banks are not at the present time government owned, but they are included in this study because a majority of their stock did belong to the government for a period of several years. Their status differs somewhat from later government owned corporations in that they were not primarily designed to be government owned. The government ownership feature was provided for only as a temporary substitute thru a transition period in case sufficient private capital did not come forward to launch the undertaking. As the private capital was not offered, most of the stock was purchased by the government, thus giving us our first large-scale example of government owned corporations. Our chief interest in this group of corporations therefore arises from the fact that they may shed some light on the feasibility of government financing, by the corporate method, of desirable public undertakings thru the initial or organization period even tho ultimate private ownership may be deemed advisable.

The Federal Land Banks were organized in 1917 under authority conferred by the Federal Farm Loan

Act of July 17, 1916.[1] They were created to meet a long recognized need in our financial system, a need not met by our Federal Reserve Banks. The latter banks, then in their third year of operation, were caring satisfactorily for the credit and rediscount needs of their member banks within the limits of the law, but the law allowed them to accept and rediscount only short-term paper, that is, paper with a maturity of six months or less. This was not the type of credit most needed by our great farming population. Their interests could be served only by a system providing for long-time credits and it was such a system that the Federal Farm Loan Act aimed to create.

The important features of the act may be briefly outlined as follows. It provided first for a Federal Farm Loan Bureau in the Department of the Treasury. This bureau was to be administered by the Federal Farm Loan Board, consisting of the Secretary of the Treasury, as chairman *ex officio,* and four members appointed by the President with the consent of the Senate, not more than two appointees to be of the same political party. The salaries of these members were fixed at $10,000 annually together with necessary traveling expenses. Their terms were eight years and were overlapping. One member of the board, designated by the President as Farm Loan Commissioner, was to be the active executive head.

[1] 39 U. S. Stat. at L. Pp. 360–384.

The act further provided that the United States, exclusive of Alaska, be divided into twelve Federal Land Bank districts, these districts to be formed with due regard for the farm loan needs of the country but with the proviso that no district should contain a fractional part of any state. In each of these districts temporary officers were to make out an organization certificate subject to the approval of the Farm Loan Board. Upon duly making and filing this certificate the bank was to become from the date of execution a "body corporate" and to have the usual corporate powers subject to the supervision of the Federal Farm Loan Board.

The banks were required to have an initial capital of $750,000 each, making a combined capital of $9,000,000 for the twelve banks. The stock was to be divided into $5.00 shares and the original capital was to be open to subscription by individuals, firms, corporations, the government of any state or the United States. Stock owned by the United States government was to receive no dividends but all other stock was to share alike in dividends. The banks were permitted to loan only to National Farm Loan Associations, the organization of which was provided for in the act, and an ingenious plan was devised whereby these associations were eventually to become the entire owners of the original capital stock and all future extensions of this capital. Only the stock owned by these associations and that owned by the United States

government was allowed the voting privilege and this partially accounts for the unwillingness of private interests to furnish the original capital.

The plan by which the National Farm Loan Associations were to become the ultimate owners of the whole coöperative system was as follows. For each loan made by a Federal Land Bank to a National Farm Loan Association a deduction of one twentieth of the amount of the loan was required for the purchase of stock in the bank. This stock was owned by the association and was automatically retired when the loan was paid off. Thus with each loan made by a Land Bank its capital was increased by an amount equal to one twentieth of the loan. After this increased capital, owned entirely by National Farm Loan Associations, reached $750,000, making the total capital stock double the original capital, the act required that 25 per cent. of all future stock increases be used to retire the original stock. Thus gradually the original stock would disappear and the ownership of the Land Banks pass completely into the hands of the National Farm Loan Associations. When this point was reached the bank's loans would be just twenty times its capital stock and the funds for these loans were to be raised from time to time by the sale of bonds. These bonds were to be secured by the notes of the Farm Loan Associations which were held by the bank. The successful operation of the system required then, first, the

organization of the banks themselves, second, the formation of a large number of Farm Loan Associations in all parts of the country, and third, the sale of bonds in sufficient quantity to meet the demands of these associations for Land Bank loans.

The members of the Federal Farm Loan Board took the oath of office on Aug. 7, 1916, and immediately began work on these problems. They first made trips thruout the entire country for the purpose of collecting data and explaining the various provisions of the Federal Farm Loan Act. During August, September, October, and November fifty three meetings were held in forty four states and the proposed method of operation was presented orally to more than thirty thousand persons.[2] One of the first problems to be dealt with was the problem of dividing the United States into twelve Federal Land Bank districts as required by the act. Several factors were considered in making this division. The act itself prescribed that state lines must be followed but otherwise left the board free to use its own discretion in determining the method of districting best suited to meet the farm loan needs of the country. The board therefore gave consideration to such factors as area, population, farm values, rural indebtedness, and the gross value of agricultural products. It also followed two gen-

[2] Federal Farm Loan Board. First Annual Report, H. of Rep. Doc. No. 714. Sixty-fifth Congress, Second Session. Government Printing Office, Washington, 1918. Pp. 5–6.

eral principles. First of all it sought to avoid single crop districts, even tho such a district might be very homogeneous. It thus hoped to eliminate the strain which a large crop failure might occasion by balancing this crop against a successful crop in the same district. The second principle which the board followed was that of linking together the weak and the strong agricultural states.[3] For example, Iowa was linked with South Dakota, Nebraska, and Wyoming. North Dakota was linked with Minnesota, Wisconsin, and Michigan. These are much stronger districts than would have been a group composed of North and South Dakota, Montana, and Wyoming. The districts as finally drawn contain all the way from one to eight states. The tenth district, comprising Texas, is the only one containing less than three states. The first district contains eight states and the second district five states. The fifth and sixth districts contain three states each while the remaining seven districts contain four each. More than half the districts then and more than half the states come in the four-state class so that this may be regarded as the typical district.

The selection of the cities in which the Land Banks should be located presented another problem. More than one hundred cities submitted claims for consideration.[4] The factors given most

[3] *Ibid.*, pp. 9–10.
[4] *Ibid.*, p. 10.

weight by the board were those of convenience and custom. It sought to determine, largely by questionnaires sent to local banks, which city in a given district the majority of the people were in the habit of dealing with in financial matters. It preferred to leave undisturbed as far as practical the established commercial channels. On Dec. 27, 1916, the following cities were selected as the most satisfactory for the purposes in view.

Springfield	St. Paul
Baltimore	Omaha
Columbia	Wichita
Louisville	Houston
New Orleans	Berkeley
St. Louis	Spokane

Five temporary directors and a registrar were then appointed in each district to carry out the work of organization. The first charter for a Federal Land Bank was granted Mar. 1, 1917.[5] Certificates of stock were prepared and offered to the public to provide the initial capital of $750,000 required for each bank. There proved to be almost no private market for this stock, due partly to more attractive investments which were available elsewhere and partly to the unfamiliarity of the public with this type of investment. The Federal Farm Loan Act, which authorized the creation of these banks, provided that the Secretary of the Treasury

[5] *Ibid.*, p. 29.

on behalf of the United States should subscribe for and purchase any stock not otherwise disposed of within thirty days after the opening of the subscription books. At the end of thirty days, out of the nine million dollars' worth of stock offered in the twelve districts, only a little over one hundred thousand dollars' worth had been subscribed. Not a single dollar's worth had been subscribed in the bank at Columbia. Accordingly the government purchased $8,879,905 worth of stock and became by far the largest stockholder in each bank.[6]

Thus unexpectedly the government became the temporary owner of these twelve banking corporations. Tho this eventuality had been considered, as indicated by the provision in the act for Treasury purchase, it was thot of rather as a possibility than as a probability. The Federal Reserve Act had contained a similar provision for Treasury support if the initial capital were not subscribed privately [7] but at that time private capital had proved abundant and it had been unnecessary to resort to government purchase.[8]

Having become the owner as well as the organizer of the Federal Land Banks the government found itself in a rather peculiar position. While the Federal Farm Loan Board had authority to ap-

[6] Federal Farm Loan Board. Circular No. 6. Farm Loan Bonds, Apr. 10, 1917. Government Printing Office, Washington.

[7] 38 U. S. Stat. at L. P. 253.

[8] Report of the Comptroller of the Currency for year 1914. Vol. 1, pp. 135–8.

point the temporary directors the Federal Farm Loan Act provided that permanent directors should be chosen as soon as the National Farm Loan Associations had purchased $100,000 worth of stock. Of these permanent directors six were to be chosen by the Farm Loan Associations and only three by the government. This would place the government distinctly in the minority tho it owned nearly $750,000 worth of stock in each bank. This situation could only be remedied by a change in the law and the board accordingly recommended such a change in its first report.[9] Congress acted on this recommendation in 1918 and in an act authorizing the Secretary of the Treasury to purchase Land Bank bonds it provided for the continuation of the temporary government organization as long as the Treasury owned any of these bonds.[10]

At the same time that the districts and the banks were being organized the board started preparatory work on its second great problem, the formation of the National Farm Loan Associations. As these associations were to deal directly with the farmer and were in most instances the only medium thru which the Land Bank funds were available to him it will be seen that they were the cornerstone of the whole rural credit structure. The plan of organization was as follows.

[9] Federal Farm Loan Board. First Annual Report. Pp. 12–13.
[10] Federal Farm Loan Board. Fifth Annual Report. H. of Rep. Doc. No. 147. Sixty-seventh Congress, Second Session. Government Printing Office, Washington, 1922. P. 8.

Each association was to consist of not less than ten farmers who desired to borrow in the aggregate not less than $20,000. Five per cent. of each farmer's loan was to be set aside for the purchase of stock in the association. The association in turn when borrowing from the Land Bank was required to make a like purchase of the bank's capital stock. Each stockholder in a Farm Loan Association was subject to double liability just as the stockholders in a bank. The associations could loan only to farmers and only on first mortgage security. These mortgages were then used to secure the loan made to the association by the Federal Land Bank. Each mortgage was to contain an agreement providing for amortization by a fixed number of installments sufficient to cover the interest and a payment on the principal. After five years the principal could be reduced or paid off on any installment date.

Other important restrictions were placed on the associations. They could make loans only for constructive improvements or the liquidation of previous indebtedness. Loans were limited to fifty per cent. of the value of the land and twenty per cent. of the value of permanent improvements. Ten thousand dollars was set as the maximum which might be loaned to one borrower and one hundred dollars as the minimum. If a borrower defaulted in his payment he was required to pay simple interest of eight per cent. on this default.

These in the main were the principles upon which the National Farm Loan Associations were to operate. Their application was not so simple.

An intensive campaign of propaganda and education was begun by the board. Newspaper and magazine articles were prepared and syndicated thru various news channels. Feature articles were published in farm papers and magazines. A serial in six chapters, describing the operation of the Federal Farm Loan Act, was syndicated to 700 newspapers having a total circulation of 26,000,000. Circulars were distributed in large numbers especially in rural communities. More than 2,000,000 of these had been mailed out of the Federal Farm Loan Bureau by Nov. 30, 1917.[11] They appeared under such titles as The Farm Loan Primer,[12] How Farmers May Form a National Farm Loan Association,[13] Killing off Mortgages,[14] and New Mortgages for Old.[15] An extract from one of these pamphlets, which was a reprint of an article appearing in the Saturday Evening Post, will serve to illustrate the type of propaganda used.

New Mortgages for Old

With us it wasn't exactly a case such as you see in the movies—of the grinding miser with one mortgage on the

[11] Federal Farm Loan Board. First Annual Report. Pp. 26–27.
[12] Federal Farm Loan Board. Circular No. 5. Nov. 21, 1916.
[13] *Ibid.*, Circular No. 2. April, 1921.
[14] *Ibid.*, Circular No. 7. June, 1917.
[15] *Ibid.*, Circular No. 3. Oct. 10, 1916.

farm and another on the hand of our fair daughter, and our being given choice as to which should be foreclosed; but it was a mortgage, and it worried us. It was one of those old-fashioned loans that never fall due, are always due, payment of which may possibly never be demanded, but which may be called tomorrow. To be sure, in our part of the world the holder of a mortgage is not supposed to want more than his interest, and he is usually an investor who lives on his income and would not know what to do with the farm if he got it, and we ought not to have been worried about being foreclosed upon. As a matter of fact tho it never seemed right to my wife or me that the loan could legally be called at any time.

The thing that bothered us was this: We had been studying our situation and we had made up our minds that there was no prospect of our ever making much headway in money matters unless we provided ourselves with better farming equipment. A twenty acre tract of the farm was so wet that it was useful for nothing but pasture. . . . The remedy was plain—underdraining. It was sour, too, and needed lime. The hill slopes, perhaps 10 acres, leading down to this flat were springy and spouty. Half the crops got off to a bad start every spring. . . .

Underdraining would make these 30 acres the best on the farm and would add a good third to its productiveness. With the land drained and limed we could grow clover, timothy, and possibly alfalfa, and corn enough to fill a good silo. . . . With a silo we could keep ten cows, or maybe fifteen, and our milk returns would seem like affluence to us. We could see as plain as day that if we had the money to put in these productive improvements it would mean prosperity. We had studied the farm papers and college bulletins and

the friendly advice given us by the Agricultural Department at Washington, and knew that wisely purchased equipment is the best investment for the farmer. We sat down and figured thus:

It would cost on the average $25 an acre to drain the 30 acres—or say $800 to be on the safe side. The silo would cost us $200 more. Here was about a thousand dollars called for right off the bat. Then we were not satisfied with our cows. They were fair cows, and we were very fond of them; but, just between us, they were scrubs. Not bad cows at all, but not the cows to make money on. When a farmer takes care of his own cows, and can't keep very many, he ought to keep good ones. It doesn't cost a cent more to keep a cow that yields 10,000 pounds of milk a year than it does to maintain the animal that gives only 2,500—unless you are keeping them simply for the pleasure of their society. Possibly we should be obliged to pay $200 a head within a year for from 7 to 10 cows—and that might mean $1,600 more. Try as we would we couldn't figure our way out with less than $2,000 of new investment . . .

Now I had never known the name of the owner of my mortgage. It was given to our bank, but I knew the bank had disposed of it and now acted only as the agent of the real mortgagee. So I went to the bank and asked whether it would be possible for me to get from two thousand to twenty five hundred dollars additional on my loan, or on a second mortgage.

"Plunging pretty heavily, aren't you?" asked the cashier.

Then I explained to him that this loan, instead of being an extravagance, was really a necessity. I had it down pat, and I finally convinced him.

"Well," said he, "that farm is easily worth $10,000 after you have made those improvements—and your encumbrance will be only four thousand. It would be safe enough; but the holder of that mortgage doesn't happen to have funds for the increase now. Otherwise, I should suggest that he take all of it and make a new mortgage covering the whole loan."

"But," I said, returning to my first idea, "I thought somebody might be willing to take a second mortgage . . ."

The cashier shook his head. Second mortgages were not a desirable form of investment. He would not recommend one to any customer of his bank. It was a violation of the bank's policy.

"Maybe the bank might make the loan?" I ventured.

"No," said he. "No, no, no! Not good banking, you know. Money is tight just now. But I'll see what I can do among our customers."

Well, the next time I went to town I called on the cashier again. He told me that, though the bank had no available funds, his father-in-law, the vice president of the bank, happened to have the money and was willing to make the loan. The interest would be six per cent and there would be a two per cent commission.

"Let me see," said I. "Two per cent of $2,500 . . ."

"Two per cent of forty five hundred," said he. "This is an entirely new loan, you know."

"But," said I, "I want only twenty five hundred. I already have two thousand, on which my father paid a commission 20 years ago."

He was very patient and kind, and explained to me that in view of the fact that the whole loan was to be renewed it would be necessary for me to pay a two per cent com-

mission—not to the bank, but to the bank's father-in-law, who made the mortgage.

"Well then," said I, "for the purpose of getting $2,500, with which to drain 30 acres of land, build a silo, and get some better cows, I shall have to pay out $90 for commissions . . . That seems pretty steep to me."

The cashier explained that I did not understand that it was the regular thing and that each loan was an independent transaction; but that if I did not want the money on that basis it would make no difference, as money was in great demand. I told him I would go home and talk to my wife about it, and would see him again— After all, $90 was all I had to pay; and, though it was plenty, I figured that it would pay me to make the loan, and I had no doubt that my wife would agree with me. When I drove into the yard, however, and began unhitching the horses she ran out to me with an expression on her face indicating that she had discovered something.

"Charlie," said she, "do you know that Congress has passed a law to help people get money on farm mortgages at a lower rate of interest?"

I was not at all enthusiastic. I had heard more or less about rural credits, and had made up my mind that the whole thing was very largely political hot air. So I grunted rather than replied.

"Humph," I said. "They have been talking about that for years. There's nothing to it."

"But," she said, "they have actually passed the bill, and the President has signed it."

"Well," said I, "you will find there is some hitch or catch in it somewhere. The government at Washington never does things like that for the farmers. It's all bunk."

"Well," said she, "it won't do any harm to study it, will it? Don't be so pessimistic; there's a first time for everything. I have been reading about this in the farm paper, and unless the editor is mistaken this thing is going to work."

So we sat down and read over together everything the paper said about it and it did sound convincing; but I was not convinced. So, after supper, I walked down to the home of William Allen, down the road a quarter of a mile, to talk about it, and found him and his wife in the act of reading all about it in their farm paper, just as my wife and I had been doing.

"What do you think about it?" said I.

"Well," said William, "the whole thing was designed to look good and it does look good, but whether it is good or not is another thing.— I don't believe there is a land bank in this state yet that is chartered under the act, and we certainly haven't a coöperative association of borrowers, and I don't suppose we ever will have. We aren't much on coöperation here . . ."

"Let's see," said William, "it takes 10 borrowers to start an association. If I could find the other nine we would have one."

"Well," said I, "I will reduce the number to eight."

"Are you looking for a loan?" said he.

"Yes," said I, "but I didn't know you were."

"Why," said he, "anybody needs one of these loans rather than a straight old-fashioned mortgage. These loans can run for 10, 15, 20, and even as high as 40 years, and they are paid off gradually by annual installments or annual dues—just a few dollars a year."

"I'd have had my $2,000 paid off years ago if I could

have paid a little on the principal every time I paid the interest," I said, "but I did not have the face to offer the bank $25 or $30, and I never could save up the two or three hundred that I thought were as little as the bank would like to take."

"Now, listen," said he, "you and I are both thinking of the same thing—organizing one of these National Farm Loan Associations. The thing for us to do is to find out how it is done and then get the neighbors interested until we have eight other men or more who would rather have money at 5 per cent than 6 per cent—and who prefer to put their mortgages in shape so that they can pay them off after 5 years, or let them run for 40 if they wish, and if they do let them run from 30 to 40 years will have them paid off by paying every year only about the same amount they would pay on their present mortgages as interest without getting any credit at all on the principal."

"Yes," said I, dubiously.

"Charlie," said he, "if we don't succeed in doing this thing we don't deserve to have cheap money on easy terms. It looks to me as if the Government had done its share and had opened the opportunity for the farmers to help themselves. If we cannot help ourselves we're no good. Are you willing to admit that we're no good? Well, I'm not; and I'm going to work on this proposition of organizing a National Farm Loan Association right here in this neighborhood—now; and I want you to help me."

And this was how our National Farm Loan Association was started.[16]

[16] Treasury Department. Federal Farm Loan Board. Circular No. 3. Oct. 10, 1916. Pp. 3–6.

It will be seen from the above illustration that the basic idea which the Farm Loan Board was endeavoring to get across to the farmers was the idea that the government, like the Lord, helps those who help themselves. Considerable initiative and a great deal of coöperation was required on the part of the farmers, but on no other basis did it seem possible to develop a permanent nation-wide system of low cost rural credit. This coöperative feature meant in reality that each loan was protected not only by a first mortgage on conservatively valued farm land and permanent improvements, but also by the double liability assumed by each member of the Farm Loan Association. This double protection made it possible for the association and the Land Bank from which it borrowed to obtain credit at very low rates. The lower the rate at which the bonds of the Land Banks sold, the lower the rate which they could offer the Farm Loan Associations and the lower the interest rate passed on to the farmers. The benefits of coöperation therefore reacted directly on the farmers who joined the Farm Loan Associations. They also reacted indirectly to the benefit of the farmers outside the associations because of the general lowering of all interest rates on farm loans.

Putting this coöperative feature into actual practice involved a number of problems. For example, separation of membership in associations on lines

of race and creed was sometimes necessary. The question of the geographic overlapping of associations also arose and while this overlapping was not encouraged a certain amount of it was permitted. The board also found it necessary to pass on such questions as whether or not land used exclusively for orchards could be considered farm land and whether the trees were permanent improvements, also whether the term farmer as used in the act could be construed to include a California nut grower.[17] These difficulties were rapidly adjusted, however, and by Nov. 30, 1917, associations to the number of 1,839 had been organized thruout the United States. Nearly 30 million dollars had been loaned to 14,000 farmers[18] and application had been made for more than 200 million dollars.[19]

To meet these rapidly increasing demands the Farm Loan Board prepared a large issue of Land Bank bonds. It was the desire of the board that the interest on these bonds be fixed at as low a rate as was consistent with obtaining a ready market for them. There was no question about the safety of these bonds. They were secured dollar for dollar by first mortgages on farm land worth double the amount of the mortgage, there was to be a gradual annual reduction in the principal of each loan, all of the twelve banks were jointly liable for

[17] Federal Farm Loan Board. First Annual Report. *Op. cit.*, pp. 15–16.

[18] *Ibid.*, p. 29.

[19] *Ibid.*, p. 14.

the obligations of each one, and in addition the banks were operating under careful government supervision and largely on government capital. Under these conditions it was believed that 4½ per cent. bonds could be marketed at a slight premium. In placing the bonds on the market the board secured the coöperation of a group of experienced bond houses. About half of the thirty million dollar issue was distributed thru these agents and the remainder was sold directly by the banks. It was not the purpose of the board permanently to utilize these bond houses as agents but the pressing need of launching the system immediately and without the delay which might be caused by the public's unfamiliarity with this type of bond, seemed to justify the added expense. The large issue of Liberty Bonds which the government placed on the market during the war added materially to the difficulty of finding a ready sale for the Land Bank bonds. To meet this situation Congress passed an act in January, 1918, authorizing the Secretary of the Treasury to purchase these bonds to the extent of 100 million dollars annually during the fiscal years 1918 and 1919.[20] This provision enabled the banks to secure needed cash immediately, yet left them free to redeem their bonds from the Treasury and offer them to the public at such time during the

[20] Federal Farm Loan Board. Second Annual Report, H. of Rep. Doc. No. 1624. Sixty-fifth Congress, Third Session. Government Printing Office, Washington, 1919. P. 15.

year as the market was most favorable. With this protection the banks were able to increase their business very rapidly.

Every increase in loans meant an increase in the banks' capital and the board was soon able to begin the retirement of the original government stock as provided in the act. This redemption was begun by some of the banks in November, 1918,[21] and continued each six months thereafter. On Nov. 30, 1918, the total capital stock in all the Land Banks had increased to $16,250,285.20. The United States government owned $8,765,415.20 of this stock. The government was still, therefore, the majority stockholder as it had been since the organization of the banks. This condition ceased to exist in the following year however. By Nov. 30, 1919, the holdings of the Farm Loan Associations had increased to such an extent that the government owned only about one third, or $7,693,240 out of a total of $21,858,502.50.[22] The government's ability to control these banks by voting a majority of their capital stock lasted then about two years, but neither the possession nor the loss of this particular form of control was of great significance in connection with these banks because of the very special and detailed government control which was

[21] Federal Farm Loan Board. Third Annual Report, H. of Rep. Doc. No. 553. Sixty-sixth Congress, Second Session. Government Printing Office, Washington, 1920. P. 11.

[22] *Ibid.*, p. 22.

otherwise provided for and vested in the Farm Loan Board. This control will remain even after all the government stock has been retired.

Thus far we have dealt with the three major problems which confronted the board in putting this rural credits system into operation, namely, the creation of the Federal Land Banks, the organization of the National Farm Loan Associations, and the sale of the Land Bank bonds. Certain lesser problems should be mentioned briefly. The board found for example that it was impossible to administer the act in certain states because of conflicting state legislation. In Louisiana, for instance, a statute existed providing for a widow's dowry of $1,000 which was superior to any mortgage. Under this law death might at any time cause a first mortgage to become valueless. The board held that as long as this law existed no Land Bank loans could be made in the state. The legislature of Louisiana therefore met in special session and repealed the law. Another difficulty arose over the North Dakota Seed Act which allowed counties to loan money to farmers for the buying of seed and in the event of failure to repay this loan it became a priority lien on the land. This meant that a first mortgage, offered as security for a loan, might cease to be a first lien on the property. The Solicitor of the Treasury Department and the Attorney General held that under these conditions a loan was still possible but that the economic value of the mort-

gage was weakened. The board eliminated this weakness by requiring the borrower to pay the charges of a surety company which guaranteed the bank against loss on this account. The only existing state legislation which now interferes with the provisions of the act is a Texas statute forbidding the mortgaging of homesteads of two hundred acres or less. This does not debar a large number from the benefits of the act however.[23]

A menace much greater than conflicting state legislation threatened the success of the system when action was brought to declare the Federal Farm Loan Act itself unconstitutional. The case went up to the Supreme Court in 1920 but was not decided until 1921. For ten months all loaning operations were halted, due to the inability of the banks to market their bonds as long as the constitutionality of the act remained in doubt. To meet this emergency Congress authorized the Treasury to purchase $45,400,000 worth of these bonds to enable the banks to handle loans already negotiated.[24] In spite of the cessation of new business the net earnings of the banks showed an increase for the year. On Feb. 28, 1921, the Supreme Court handed down a decision upholding the constitutionality of the act [25] and thus firmly established the Federal Farm

[23] Federal Farm Loan Board. Second Annual Report. *Op. cit.*, pp. 17, 13.

[24] 41 U. S. Stat. at L. P. 627.

[25] Smith *v.* Kansas City Title & Trust Company *et. al.* (1921). 255 U. S. 180.

Loan system as a permanent financial agency.

Certain other difficulties of a minor nature were encountered by the Federal Farm Loan Board. They found for example that in some localities the Farm Loan Associations, after securing the number of members required for organization, did not care to bother with new members. This caused inconvenience where the farmers desirous of joining were too few to form another association. An additional handicap with which the board had to contend was the laxness of the secretary-treasurers of the Farm Loan Associations in sending in reports. This made it very difficult for the Farm Loan Bureau to keep accurate records. The board finally recommended that it be given power by Congress to remove these officials for neglect of duty and to appoint their temporary successors.[26]

In 1921 the board made other recommendations for the improvement of the system. The most important change which five years of experience had suggested was in the permanent organization of directors. The original act had provided for a permanent organization of nine directors, six representing the Farm Loan Associations and three representing the public interest. The board believed that this proportion should be changed and the public be represented by four directors and the

[26] Federal Farm Loan Board. Fifth Annual Report, H. of Rep. Doc. No. 147. Sixty-seventh Congress, Second Session. Government Printing Office, Washington, 1922. P. 7.

Farm Loan Associations by three.[27] This would give the balance of power to the public which the board felt had the paramount interest in the system. The stockholder's interest was of a peculiar nature, not permanent in character, because it necessarily ceased when his loan was paid. The board's contention was further justified because of the public interest created by the enormous investment in Land Bank bonds. Congress, seeing the wisdom of this suggestion, approved the change and incorporated it in the Agricultural Credits Act of Mar. 4, 1923.[28] On the following June first the banks were organized on this permanent basis.

During this same year an important change occurred in the policy as well as the organization of the banks. The sale of Land Bank bonds had grown to such proportions that the banks decided to appoint a special officer to act as their fiscal agent in handling these sales. Charles E. Lobdell, Commissioner and executive head of the Farm Loan Board, resigned his office to accept this new position. As he had been a member of the board since its organization and was perhaps chiefly responsible for its successful administration, he was well qualified to represent the banks in this new capacity. By thus coördinating the bond sales of the twelve banks under one head it is believed that substantial economies can be achieved. It is anticipated that

[27] *Ibid.*, p. 8.
[28] 42 U. S. Stat. at L. Pp. 1474–1476.

the average annual sale of bonds will shortly reach 300 million dollars.[29] Therefore even a slight increase in the efficiency with which the sales are handled will result in a great saving.

This enormous growth in the sale of bonds is of course a direct reflection of a like increase in the loaning activities of the banks. The Federal Land Banks and the National Farm Loan Associations have now become the greatest coöperative marketing association in the world. The product which they market is rural credit. On Mar. 31, 1926, they had marketed $1,207,627,299[30] worth of this product. This was divided among 390,339 loans.[30] After deducting the amounts repaid the net outstanding mortgage loans on the same date were $1,027,361,184.62.[31] Government stock had been reduced to $1,180,440[31] and in seven of the twelve banks the government no longer owned any of the capital stock.[32] It appears certain therefore that but a short time will elapse before all the government stock will be retired. This withdrawal from direct financial participation should in no way lessen government interest in this great coöperative undertaking. The contribution which

[29] Federal Farm Loan Board. Seventh Annual Report, H. of Rep. Doc. No. 196. Sixty-eighth Congress, First Session. Government Printing Office, Washington, 1924. Pp. 10–11.

[30] Treasury Department, Federal Farm Loan Board. Monthly Report, March, 1926. (1083).

[31] *Ibid.*, (1077).

[32] *Ibid.*, (1077), pp. 2–3.

the system has already made to the general welfare merits the continued support even of those whose interests it does not primarily serve.

The direct benefits for which it is responsible may be briefly summarized as follows. It has lowered the rate of interest which farmers must pay for loans secured by first-class farm mortgages. It has provided a systematic plan of amortization by which the borrower may pay off his debt in regular installments. And it has furnished the small investor with a type of farm mortgage security which is backed by the integrity of the whole farming industry rather than the fortune and caprice of the individual borrower. That these features appeal both to the investor and the farmer is evidenced by the fact that in the short space of nine years the former has loaned and the latter has borrowed more than one billion dollars under the system.

Our experience with the Federal Land Banks, then, would seem to indicate that the investment of public funds in a corporate form of governmental agency, which is designed to further an important public policy, is both practical and efficient; and the success of the banks both before and after the withdrawal of the public funds would further indicate that this is true whether the public investment is temporary or permanent.[33]

[33] Cf. *Infra* ch. VIII for discussion of Federal Intermediate Credit Banks.

CHAPTER III

UNITED STATES SHIPPING BOARD EMERGENCY FLEET CORPORATION

American shipbuilding has had a long and checkered history. It began in the colonial period when timber was plentiful on the Atlantic seaboard and the products of the older European civilization were scarce. It grew and flourished steadily until at the time of the American revolution it had become a great national industry. This growth continued thruout the early years of the Republic and reached a peak just before the Civil War. In 1860 our tonnage almost equaled that of Great Britain [1] and we far surpassed all other competitors.[2] After 1860 a decline began and continued with slight variations until 1900. In the period from 1900 to 1908 there were substantial gains, but from that date until our entrance into the European War a further decline occurred. Even in 1916, when our shipbuilding industry was beginning to feel the

[1] Statistical Abstract for the United Kingdom, 1859–1873. Twenty-first Number. Her Majesty's Stationery Office, London, 1874. P. 92.

[2] Statistical Abstract for the Principal Foreign Countries, 1860–1872. First Number. Her Majesty's Stationery Office, London, 1874. P. 16.

stimulation of the war in Europe, we built only 325,000 tons, while the average for the ten years preceding the Civil War was 366,000 tons.[3] The decline therefore was not merely relative, it was absolute, and extended over a period of fifty years. During this half century other nations had made tremendous advances. Our own commerce had grown enormously and our shipping needs had increased many fold. Consequently, when we entered the war in 1917, we found our foreign commerce almost completely dependent upon the carrying facilities of other countries. We ourselves were carrying less than ten per cent. of this commerce.[4]

Altho this situation had been called to the attention of the country many times no comprehensive remedial measures were undertaken until Sept. 7, 1916, when Congress passed the act creating the United States Shipping Board.[5] This board was established to foster and develop a naval reserve on which the country might rely in time of war, to encourage and promote a merchant marine capable of meeting the commercial requirements of the United States, and to regulate all American vessels engaged in foreign and interstate commerce. It

[3] Statistical Abstract of the United States, 1923. Government Printing Office, Washington, 1924. P. 424.

[4] Hearings before the Committee on the Merchant Marine and Fisheries on H. R. 10500. Sixty-fourth Congress, First Session. Feb. 10, to Mar. 9, 1916. Government Printing Office, Washington, 1916. P. 426.

[5] 39 U. S. Stat. at L. Pp. 728–738.

was designed in many respects to bear the same relation to ocean transportation which the Interstate Commerce Commission bore to land transportation. The scope of its authority was broader however than that of the commission. It was empowered for example to charter, purchase, or construct vessels, and to sell, lease, and under certain conditions to operate vessels so acquired. For these purposes it was authorized to form a corporation under the laws of the District of Columbia. The capital stock of this corporation was limited to 50 million dollars. The board could subscribe to, purchase, and vote not less than fifty per cent. of this stock. It could sell any of the stock but it could not become a minority stockholder. The act further forbade the corporation to engage in the operation of vessels unless it should be unable to make suitable arrangements with any United States citizen for the purchase, lease, or charter of such ships. Before the board could operate vessels the President was required to make a declaration stating that the conditions then existing made such operation necessary.

The board provided for in this act was duly appointed by the President and confirmed by the Senate in January, 1917, but no steps were taken to form a corporation until after our declaration of war. Then on Apr. 16, 1917, the board organized the United States Shipping Board Emergency Fleet Corporation with a capital of 50 million dollars and incorporated it in the District of Columbia.

On Feb. 5, 1917, the President had issued a proclamation declaring a national emergency to exist, thereby conferring on the Shipping Board all the emergency powers provided for in the act creating the board. These powers were further increased on July 11, 1917,[6] when the President delegated to the board and to the Emergency Fleet Corporation the sweeping powers conferred on him by the Emergency Shipping Act of June 15, 1917.[7] This act gave the President authority to cancel contracts, requisition property, and manage, operate, and dispose of all ships as he saw fit. The broad functions thus delegated were divided between the Shipping Board and the Emergency Fleet Corporation as follows. Those dealing with the acquisition of vessels, and the general regulation of shipbuilding and maritime commerce were retained by the board while those connected with the construction and operation of vessels were delegated to the corporation. The activities of the corporation therefore fall under two main heads, construction and operation. In its construction program it was authorized to expend $3,671,000,000 and of this amount Congress actually appropriated $2,625,451,000.[8] With this vast sum of money and its broad delegated powers the corporation entered upon one of the

[6] Executive Order 2664. July 11, 1917.

[7] 40 U. S. Stat. at L. P. 182.

[8] Mattox, W. C. *Building the Emergency Fleet.* The Penton Publishing Co., Cleveland, 1920. P. 7.

greatest construction programs ever attempted by a single agency. History records few undertakings which rival it in size and none which approach it in speed of execution. We might compare it with the Panama Canal but the canal cost less than one seventh of the amount expended on our shipping program. We might compare it with the great engineering projects of antiquity, the Pyramids of Egypt or the Great Wall of China, but these required decades or generations to build. The Emergency Fleet Corporation completed the greater part of its task in two years. The details of this achievement can be but briefly sketched in the following pages, but an attempt will be made to bring out the chief problems which confronted the corporation and the general policies followed in their solution.

The corporation's chief raison d'être was the alarming situation brought about by the unrestricted submarine campaign launched by the Germans in February, 1917. This method of warfare proved so effective that, including vessels which were damaged and those sunk by mines, it destroyed in one year between 8 and 9 million deadweight tons.[9] Since our production in 1916 was only 325,000 tons it was apparent that any effective contribution on our part to the replacement of this loss would necessitate an enormous expansion of our shipbuilding facilities. Such an undertaking required a highly complicated business organization capable of hand-

[9] *Ibid.*, p. 18.

ling large-scale production under emergency conditions. For this purpose it was believed that a corporate form of organization modeled after some of our great business enterprises would be most efficient. The Emergency Fleet Corporation was therefore organized by the Shipping Board and made responsible for the execution of the building program. The members of the Shipping Board became the trustees of the new corporation and exercised still further control over it by the appointment of three of their number to the chief offices of the corporation. For example, Mr. William Denman, the chairman of the Shipping Board, was one of the trustees of the corporation and also its first president. John A. Donald, another member of the board, was vice-president of the corporation, and Raymond B. Stevens, a third member, was its treasurer. The two organizations were thus under identically the same control. Nevertheless a controversy arose in the administration of the Emergency Fleet Corporation program due to a provision in the by-laws of the corporation giving a certain amount of independent authority to the general manager.

The first person to hold this position was Maj. Gen. George W. Goethals, builder of the Panama Canal. Gen. Goethals, because of his wide experience and known ability, expected to assume full responsibility for the execution of the board's program. Mr. Denman, on the other hand, felt that

final responsibility should remain with the chairman of the board, who was president of the corporation. This clash of authority would have been less serious had the men not differed on the fundamental policies to be followed in the construction program. Mr. Denman believed that, in view of the emergency and the apparent inability of the shipyards to increase the output of steel ships, the corporation should concentrate on the production of wooden vessels. Gen. Goethals did not oppose the building of wooden vessels but favored a greater emphasis on the construction of steel ships. He believed it was entirely feasible to expand and increase the facilities of steel shipyards and thus increase the output of what was admittedly a higher type of vessel. The two men also differed on the relative importance of speed and cost. Gen. Goethals believed that cost was entirely incidental and that all else should be sacrificed for speed. Mr. Denman thought that many of the prices agreed to by the corporation were too high and he therefore held up the contracts. This procrastination seemed unpardonable to Gen. Goethals and the dispute was finally taken to President Wilson. His decision upheld the system of dual authority so that the situation remained unchanged. Suddenly on July 27, 1917, Gen. Goethals resigned and thereupon President Wilson demanded the resignation of Mr. Denman.[10]

[10] *Ibid.*, p. 25.

These two vacancies were filled by the appointment of Rear Admiral Washington Lee Capps as general manager and Edward N. Hurley, an Illinois manufacturer, as chairman of the Shipping Board. Admiral Capps also found the system of dual authority a hindrance and for this and other reasons he resigned on Dec. 1, 1917. His successor, Rear Admiral Frederick R. Harris, likewise found himself unable to work under the system of divided responsibility and remained in office only sixteen days. The complete failure of this method of administration was now so evident that a change became imperative. The by-laws were so amended as to place complete responsibilty upon the president of the board of trustees who was also chairman of the Shipping Board. As a result of this change further administrative disputes were avoided and the new general manager, Charles Piez, remained in office from Dec. 18, 1917, to May 1, 1919.

A further administrative change was effected on Sept. 30, 1921, when the Shipping Board adopted a resolution favoring the retirement of its chairman as president of the corporation, and its members as trustees, and the election of separate officers to these positions. The actual control of the corporation however was not greatly affected by this action as the Shipping Board requires the president of the corporation and each of the trustees to deposit with the secretary of the board his signed

resignation for acceptance at the pleasure of the board, together with his qualifying shares of stock, duly indorsed for transfer.[11] The change simply relieves the Shipping Board of a certain amount of administrative detail without in any way lessening its control of policy.

One of the most difficult tasks that faced the Emergency Fleet Corporation in the spring of 1917 was the building up of an organization capable of handling the multitudinous problems involved in its great construction program. There were no precedents to follow. It was the first time the government had ever delegated to a corporation the administration of a great business enterprise of this character. The complexity of the task required not only the most highly trained technical experts, but also the most efficient administrative and executive specialists which the country possessed. It was not easy to secure these men. Many of them were already engaged in work vital to the nation's welfare. Private industry was expanding and could ill afford to spare its best men. One great factor worked in the corporation's favor. Men were willing for patriotic reasons to make sacrifices they would not consider in times of peace. For this reason the corporation was able to mobilize in a very short space of time some of the best talent in the United States. This factor contributed more

[11] Eighth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1924. P. 8.

perhaps than any other to the successful development of the organization. The services of some of the dollar-a-year men were of untold value to the corporation. It is impossible to estimate the contribution of such men as Charles M. Schwab, whose salary for nine months of service as director general was exactly seventy five cents.

The original organization of the corporation was built about the personalities of the men who were available. The speed with which it was expanding seemed to preclude any other method. New departments were created over night. Each man administered his own department in his own way. Overlapping and duplication were unavoidable yet surprisingly little friction developed. Nearly a year elapsed before steps were taken to reorganize the various units according to function. The rapid expansion of the corporation made reorganization at an earlier date impossible. In April, 1917, the corporation was located in four rooms, on the eighth floor of the Munsey building in Washington, and had five persons on its payroll. In six months its personnel had increased to more than one thousand,[12] and one year after its incorporation it was occupying office space in twenty three different buildings located in all parts of the city.[13] This

[12] First Annual Report of the United States Shipping Board. Government Printing Office, Washington, Dec. 1, 1917. P. 32.
[13] Second Annual Report of the United States Shipping Board. Government Printing Office, Washington, Dec. 1, 1918. P. 96.

condition made coördination of effort extremely difficult, and as it could not be remedied in the city of Washington the entire organization was moved to Philadelphia where it was possible to house most of the staff in one building.

In April, 1918, Howard Coonley, a Boston manufacturer, was made vice-president of the corporation, in charge of administration. He carried out a thorough reorganization of the administrative machinery and thereby greatly increased the efficiency of the corporation. The system as it had originally developed was as follows. Each separate activity of the corporation was administered by a separate department or division with headquarters in Washington. The country was then divided geographically into eleven shipbuilding districts. Each division had a representative in each district to supervise the particular activities with which the division was concerned. There was however no field officer to coördinate the work of these district agents. As a result conflicts arose, especially between the representatives of the steel-ship division and the wooden-ship division. In a district where both wood and steel ships were being constructed it frequently happened that the shipbuilders and supply men did not know from whom to take orders. Often these orders conflicted and action was held up to await a decision from Washington. Soon the central office was swamped with detail and it became evident that more decentralization was necessary.

Accordingly in the spring of 1918 a district manager was appointed for each district.[14] All the field agents and departmental representatives in his district were directly responsible to him. His position in the district corresponded in many ways to that of the director general in the central office. The division chiefs in Washington still continued to issue orders to their field representatives, but a copy of each order was sent to the district manager who held a veto power. This fixing of responsibility eliminated much friction and jealousy in the districts and greatly lightened the burden of the Washington office.

Solving the administrative difficulties however was only a means to an end. The great task before the corporation was the building of ships. This involved problems of construction both numerous and varied. Only a few can be dealt with here. The first major problem which faced the corporation was the determination of the type of vessel which should be built. A survey of the shipyards of the country revealed the fact that the majority of them were building steel ships and that all of them were working near capacity. Many of the ships were being built for foreign governments. The builders were having great difficulty in secur-

[14] Report of Director General Charles Piez. Government Printing Office, Washington, Apr. 30, 1919. See charts following p. 72.

ing steel and were not looking for new orders. It was evident that the production of ships could not be greatly increased unless the existing yards were expanded and new yards built. The corporation therefore offered special inducements to encourage new building and expansion. In some cases contracts for ship construction were made providing for partial payment in advance. In others the money for new plants was loaned outright, the corporation taking a mortgage on the plant for security. Under this stimulus the shipbuilding facilities of the country increased rapidly. It was found particularly feasible to expand wood-ship yards as this could be done without interfering with the steel-ship program. Several concrete-ship yards were also built as an experiment. The corporation's success in expanding the facilities for constructing these various types may be judged from the following figures. When we entered the war in April, 1917, there were in the United States 37 steel-ship yards with 162 shipways, and 24 wood-ship yards with 72 shipways capable of constructing vessels of 3500 tons or over. On Mar. 31, 1919, less than two years later, there were—

67	steel-ship yards with	420 ways
4	steel-tug yards with	21 ways
77	wood-ship yards and 6 concrete-ship yards with	357 ways
18	wooden-tug yards with	70 ways
9	wooden-barge yards with	23 ways

Omitting tug and barge yards the total had thus increased from 61 yards with 234 ways to 144 yards with 777 ways.[15]

While these yards were being built the engineers of the construction division were hard at work drawing plans for the new vessels. In the interest of speed and economy each type of vessel was standardized. This made it possible to order ship parts in quantities and to make the molds for one ship serve for any number of vessels of the same type. A special problem was presented by the steel ships already under construction. On Aug. 3, 1917, they were requisitioned by the Shipping Board and placed under the control of the Emergency Fleet Corporation. This action affected 431 vessels with a total weight of more than 3 million tons.[16] It was found that ninety nine different types of design were being used in the construction of these vessels.[17] While it was not practical to alter the plans of ships nearing completion it was obvious that those just begun or yet to be laid should be standardized. The number of types was accordingly reduced from ninety nine to seven with a tonnage as follows: 5000, 5650, 7500, 8800, 9000, 9400, and 9600. A standard wooden ship of 3500 tons was also designed. This was larger than any wooden ship

[15] *Ibid.*, p. 13.

[16] Second Annual Report of the United States Shipping Board. Government Printing Office, Washington, Dec. 1, 1918. P. 33.

[17] Mattox, W. C. *Op. cit.*, p. 49.

ever constructed and therefore involved unusual technical difficulties.[18]

The problems of the designers were further complicated by the military exigencies of the situation. Quarters had to be provided for naval gunners, decks had to be built stronger to support gun mounts. It was even necessary to change the design of the bows to permit the attachment of a device for picking up the mooring rope on mines to prevent their explosion under the ship. This device, known in America as the "otter gear" because of the fancied resemblance to an otter's nose protruding from the water, was the invention of an Englishman, afterwards knighted for his services. Its use was kept secret during the war and is believed to have prevented the destruction of hundreds of vessels.

The standardization of design reached its fullest development in the so-called fabricating yards at Hog Island, Bristol, and Newark bay. Fabrication of parts was a new idea in the shipbuilding industry. It was an outgrowth of the practice often followed in the automobile industry of manufacturing standard parts at separate plants and then assembling them at a central point. The construction of a large number of vessels of standard design made the same practice possible in the building of ships. The yards at Hog Island, Bristol,

[18] *Ibid.*, pp. 47, 52.

and Newark were in reality great assembling plants. The project at Hog Island was the largest ever attempted in the history of shipyard construction. It was located on an island in the Delaware River just below Philadelphia and covered a tract of about nine hundred acres. The land was marshy and covered with underbrush and when work began there were no roads suitable for vehicular traffic. The site was chosen in spite of these drawbacks because of its protected inland position, its location on deep water close to a large city, and its nearness to steel mills and fabricating plants. The contract for this yard was let on Sept. 13, 1917. Five months later, on Feb. 12, 1918, the work was fifty per cent. completed and the first keel had been laid. The yard when finished contained fifty shipways, extending a mile and a quarter along the river, and also sufficient piers for the outfitting of twenty eight ships. Work was thus possible on seventy eight vessels at the same time. The auxiliary equipment of this yard was equally extensive. The project contained 80 miles of railroad, 3 million feet of underground wiring, and 250 buildings. It employed 30,000 men and its cost was more than a hundred million dollars. On Sept. 13, 1917, when the contract for this yard was let, Hog Island was a barren waste. Less than eleven months later, on Aug. 5, 1918, it had been transformed into the greatest shipyard in the world and its first ship had been launched. So successful was the fabricating

idea that this one yard contracted to deliver 1,385,000 tons of shipping within two years. The total contracted for by all the fabricating yards reached nearly 4 million tons.[19]

One of the most interesting phases of the corporation's work was the designing and construction of concrete ships. Experiments were carried on which showed that such ships were entirely practical. Experts of the Bureau of Standards in cooperation with other agencies developed a concrete aggregate which was lighter than water and at the same time stronger than concrete made with ordinary gravel. It was found that ships built of this material had a carrying capacity eight per cent. greater than wooden ships of equal size, and could be constructed at less cost. In the spring of 1918 contracts were let for the building of five government owned shipyards capable of producing this type of vessel. These yards were located at San Diego, Cal.; Oakland, Cal.; Wilmington, N. C.; Mobile, Ala.; and Jacksonville, Fla. Each yard built eight vessels for the corporation making a total of forty. Two additional concrete vessels and numerous smaller craft of the same material were built in other yards under the supervision of the corporation.[20]

Closely associated with the actual construction

[19] Second Annual Report of the United States Shipping Board. Government Printing Office, Washington, Dec. 1, 1918. Pp. 129–132.

[20] *Ibid.*, pp. 142–3.

problems of the corporation was the problem of securing and distributing adequate supplies of raw material. It is a difficult and complicated task to furnish the supplies for one manufacturing plant even in peace times. It was necessary for the Emergency Fleet Corporation to furnish supplies in the midst of war for nearly two hundred shipyards stretching from Maine to Mexico and from San Diego to Puget Sound. For this purpose the corporation organized a purchasing unit which was later consolidated with a production and a transportation unit to form the supply division, the largest single division of the corporation. After the consolidation this division was responsible for securing and delivering both the raw material that went into the ships and the manufactured equipment for outfitting them. This work required the services of 1700 men. They were drawn from a wide range of professions and included engineers, lumber dealers, iron and steel men, metallurgists, railroad men, manufacturers, and accountants. These men supervised the shipment of ore from the iron mines of Minnesota to the blast furnaces in Pennsylvania. They kept track of the movement of yellow pine from the south and fir from the far west. They purchased engines, turbines, boilers, pipes, valves, tools, electric machinery, lumber, steel, and the thousands of other articles necessary for the outfitting of a great fleet. For these supplies the division spent from five to ten million dollars a week.

The material purchased by the lumber department alone almost dazes the imagination. Just before the armistice this department reported that nearly 400 million feet of lumber had already been cut and shipped east, an amount sufficient to literally bridge the Atlantic from America to France with a floor twenty five feet wide.

Even the purchasing of lumber was but a small part of the division's work. It was not as important for instance as the purchase of steel for which the division in seventeen months expended a quarter of a billion dollars. The purchase and distribution of this steel was one of the most difficult problems with which the division had to deal. Almost every war activity was dependent in some way upon steel. The supply division had to work in close cooperation with the War Industries Board, which was the final authority in dividing the available supply among the various private and government agencies. Every possible effort was made to prevent delay in the delivery of shipyard steel, for failure at this point meant the holding up of the whole shipping program. In one case the division even shipped seven hundred tons of steel to the Pacific coast by express.[21]

Other novel expedients were resorted to by the division to meet unusual situations. To illustrate, the division's outfitting department received word that a large supply of ship chronometers was needed

[21] Mattox, W. C. *Op. cit.*, p. 125.

for the new fleet. The chronometer is a delicate and finely adjusted instrument used in determining the location and laying the course of a vessel. Upon investigation it was found that these instruments came almost exclusively from the British Isles, that there were no manufacturers in the United States and very few craftsmen who knew anything about them. Steps were therefore taken to introduce the art and in the meantime all the old instruments in the country were carefully collected. It was necessary that these be overhauled and repaired before they could be used and at first the department was unable to find anyone to whom this work could be entrusted. Finally a Rhode Island watchmaker was discovered whose hobby was chronometers and the work was placed in his charge. As fast as the instruments were put in condition they were carefully locked in a special vault until needed. Each vessel was then alloted one chronometer instead of the customary three and in place of the other two each was provided with carefully constructed watches. When everything else had been placed on board the chronometer was taken from the vault and carried to the vessel by a certain woman whose duty it was to keep it always in her possession until it was delivered. By thus conserving what we had and substituting for what we lacked the supply division was able to solve many a difficult problem.

For one great commodity, however, there was no substitute. Human labor on a very large scale

was essential even tho supplemented by every form of modern machinery. The corporation asked for two hundred and fifty thousand volunteers. High wages and exemption from the draft induced more than three hundred thousand to patriotically respond. To utilize efficiently this large supply of labor it was essential that the corporation give careful attention to such problems as housing, health, industrial accidents, wages, and recreation. Originally each of these functions was administered independently by the department to which it seemed most closely related. The same confusion resulted which developed in other phases of the corporation's work where unified control was lacking. Accordingly in the spring of 1918 all these functions, with the exception of housing, were grouped under one head, known as the industrial relations division. Thereafter confusion and conflicts of authority were eliminated and much greater progress was possible.

The problem of wages and hours was handled largely by the labor adjustment board, created in August, 1917. This board, usually known as the Macy board, consisted of three members, one named jointly by the Navy Department and the Emergency Fleet Corporation, one chosen by Samuel Gompers to represent labor, and one appointed by the President of the United States in the interest of the public. It was agreed that this board should decide questions of wages and hours and that its

awards should be effective for six months. During this period the workers were not to strike and the decisions were to be binding on all parties. The first award was unsatisfactory to the workers on the Pacific coast and they immediately appealed to the Emergency Fleet Corporation for a revision. They were granted a temporary increase of ten per cent. and a board of appeal was created to which dissatisfied parties might take future disputes. Again in 1918 the workers on the Pacific coast appealed from a decision. The board of appeal was unable to agree and the workers magnanimously remained at their posts and drew their unprecedented high wages until after the armistice. Only the shipyard disputes were handled by the Macy board. The problem of wages and hours in auxiliary plants was directly under the control of the industrial relations division of the corporation. The division did not attempt actually to fix wages and hours in these plants tho it had authority to do so by virtue of a clause inserted in all contracts. It preferred to follow a policy of conciliation and assume the rôle of mediator when disputes arose.

Caring for the health of the workers was another important function of this division. In the haste to build new shipyards and expand old ones little or no thot was given to such problems as sanitation, housing, industrial accidents, and recreation, yet all these things were of vital importance in promoting the welfare and efficiency of the labor-

ers. The matter of sanitation was especially important due to the congestion in the various yards and the danger of contagion. The new employees, drawn from other occupations, working under strange conditions, often in a climate to which they were unaccustomed, were particularly susceptible to disease. Careful observance of the rules of hygiene was essential if epidemics were to be averted. The division therefore made a survey of each locality and mapped out a constructive program for remedying the situation. A local sanitary campaign was then inaugurated with the coöperation of the shipyard owners and the support of neighboring communities. Some districts presented special and distinctive problems. At Hog Island it was necessary to eliminate the mosquito by the same methods used in the Panama Canal Zone. In another district flies were menacing the health of the workers, and in still another it was necessary to employ an expert from the Department of Agriculture to exterminate rodents.[22] As a result of these efforts the danger of contagion was largely removed and sickness among the workers was reduced to a minimum.

A serious effort was also made to reduce industrial accidents. Before the war many shipyards had no organization whatever for carrying on this work. Thru the efforts of the industrial relations division a great many yards established departments

[22] *Ibid.*, pp. 168–9.

of safety engineering.[23] These departments made surveys, introduced safety devices, and conducted educational campaigns among the workers. They sought to eliminate such practices as the careless throwing of rivets and the placing of heavy steel plates in positions where they were in danger of falling. They found that the most frequent of all accidents were eye injuries caused by flying particles of steel. This danger was constant in riveting, reaming, clipping, calking, and drilling, and could be averted only by the use of specially constructed goggles. Even after this precaution had been taken there were one hundred fifty injuries of this type daily at Hog Island. Before the war industrial accidents in shipyards caused a loss of eight days per year for each one thousand workers. As a result of the concerted efforts to reduce this hazard, in some of the yards the number of days lost dropped from eight to two in the latter part of 1918.[24]

The physical welfare of the worker was not the only factor that affected his productivity. His mental attitude and interest in his work was sometimes even more important. Realizing this fact the corporation sought to make each man feel that he was a vital part of a great undertaking. Charts were prepared every two weeks showing graphically the

[23] Third Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1919. P. 88.
[24] Mattox, W. C. *Op. cit.*, pp. 172, 174.

progress made in each yard and each district. Publicity was given to unusual achievement in any line and various forms of competition were encouraged. A spirit of rivalry developed which resulted in some remarkable records. Interest at first centered on individual riveting contests. A good riveter was supposed to be able to drive from 400 to 500 rivets a day. Competition began when word was sent out that a man in Baltimore had driven 685 rivets in a day. A few days later a man in the same yard drove 1414 rivets in eight hours. The first man then came back with a record of 2720 rivets in nine hours. This was soon surpassed by a New Jersey worker who drove 2919 rivets in eight hours. By this time English workers had heard of the contest and word was sent back that an Englishman in a London shipyard had hammered 4267 rivets in nine hours. Interest became so widespread that papers in both countries began to offer prizes. An English publisher offered 25 pounds to any American who could surpass the English record. The prize was won by a negro in a Baltimore yard but his record was broken the following day by a worker in Oakland, California, who drove 5620 rivets in nine hours.[25] Interest in the star performers had become so great by this time that it interfered with the efficiency of the other workers, who left their own work to watch the contest. It therefore had to be discontinued. Competition

[25] *Ibid.*, pp. 57–59.

thereafter was focused on the total tonnage produced and the speed of delivery in various yards.

Before the war it required from nine months to a year and a half to build a modern steel vessel of from 3500 to 9000 tons. During the war the same vessels were built in from one to four months. In one yard the average time from keel laying to delivery was less than seventy days.[26] One steel ship, the *Crawl Keys,* a vessel of 3350 tons, was constructed at Ecorse, Michigan, in twenty nine days. The record among wooden ships is held by the *Aberdeen,* a 4000 ton vessel built at Gray's Harbor, Washington, in twenty seven days.[27]

The first ship to be delivered to the Emergency Fleet Corporation was one of the requisitioned steel vessels, completed Aug. 30, 1917. From that date until nearly a year after the armistice the tonnage delivered steadily increased. The record month was September, 1919, during which 145 ships of 788,053 tons were delivered. Thus in one month we completed more than twice the tonnage produced in this country during the whole of 1916. The maximum program of the corporation, reached in October, 1918, before cancellations began, called for 3,148 ships of 17,493,286 tons.[28] After the armistice contracts for 963 vessels of 4,808,365

[26] *Ibid.,* p. 14.
[27] *Ibid.,* p. 108.
[28] *Ibid.,* p. 98.

tons were cancelled.[29] The value of these cancelled contracts was over 850 million dollars.[30] Most of the remaining contracts were completed. As the ships were delivered they were turned over to the operating division of the Emergency Fleet Corporation, tho title to these vessels was vested in the United States Shipping Board. By June 30, 1921, most of the deliveries had been completed and the board had become the owner of more than 11 million tons of shipping.[31] The operation of these vessels has now become the most important function of the corporation.

The operating division was created in the fall of 1917. It was entrusted with the management of both the requisitioned and the newly constructed vessels. It arranged for their operation and put them into the service where they were most needed. Its primary purpose was to assist in winning the war. All other objects, however desirable in themselves, were considered secondary. If the army asked for transports it was the duty of the operating division to supply them; if the navy needed auxiliary vessels means were found to provide them. To meet these requirements the division was frequently compelled to interfere with estab-

[29] Fourth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1920. P. 223.
[30] Third Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1919. P. 81.
[31] Fifth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1921. P. 80.

lished trade routes and private shipping facilities. It was often necessary to divert vessels from their regular runs and assign them to new services. Certain lines were discontinued altogether. These restrictions on private commerce were made necessary by the exigencies of war. The ending of hostilities greatly altered the situation. There still remained the task of returning our soldiers from France but the great object for which the Emergency Fleet Corporation had been created was achieved. The war had been won. The operating division therefore turned its attention to the problems of peace. Its task henceforth was to administer the millions of tons of shipping in its possession in such a way as to stabilize and strengthen permanently our new merchant marine.

When the division was established it was given authority to man and operate ships directly or to delegate this task to existing agencies.[32] During the war it usually turned over requisitioned ships to their previous owners for operation and assigned new ships to private companies willing to operate them under terms laid down by the corporation. After the war a similar policy was followed. As soon as the vessels had been assigned to a definite service they were placed under the control of managing operators. It was the function of these operators to handle the details of administration

[32] Second Annual Report of the United States Shipping Board. Government Printing Office, Washington, Dec. 1, 1918. P. 55.

while the division retained control of general policies.

Immediately following the war there was a great demand for shipping facilities on all the principal pre-war trade routes. The division took advantage of this situation and established regular services to the leading ports thruout the world. Following this it established lines on customary routes of secondary importance. Still later it instituted and organized services entirely new to American commerce. These services included both freight and passenger lines. At the beginning of this undertaking many difficulties were encountered. As new entrants in the field we faced strong competition from lines already well established. We were at a special disadvantage in foreign ports where there was no American representative to look after our interests. The agents of the American operators in these cities were usually aliens representing a number of different interests. When there was a choice between our interests and the interests of their own nationals they naturally favored the latter. For this reason the Shipping Board, thru the instrumentality of the operating division, established its own agencies, under the control of its own nationals, in many of the principal ports. These agents, acting as government representatives, received much more consideration and coöperation from foreign officials, in their efforts to prevent unfair and discriminatory practices, than did the

agents of private companies.[33] As American operators became more firmly entrenched it was possible to discontinue many of the smaller agencies and concentrate their functions in central agencies. At the present time we have a European agency with headquarters in London and branches in twelve other cities, a Brazilian agency, a River Plata agency, and an Oriental agency with headquarters in Manila and branches in Shanghai, Hongkong, and Kobe.[34] These agencies exercise general supervision over all the government lines and coöperate with private American lines wherever possible.

The Emergency Fleet Corporation is now operating 37 services in European trades, 7 to Mediterranean districts, 8 to South America, and 19 to the Far East. In these 71 services it employs 317 vessels with a total weight of nearly 3 million tons.[35] Most of these vessels are freighters used exclusively for cargo carrying purposes. The corporation has however established four great passenger lines in which are to be found twenty of the finest ships in the American merchant marine. Six of these vessels are operated by the United States Lines to European ports, four by the Pan American Line to South American ports, five by the Admiral Oriental

[33] Fourth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1920. Pp. 57–9.

[34] Eighth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1924. Pp. 108–11.

[35] *Ibid.*, p. 119.

Line, and five by the Pacific Mail Steamship Company to oriental ports.[36] The latter five vessels were sold during 1925 to the Dollar Steamship Company.[37] This sale, which created a storm of protest and split the Shipping Board wide open, serves to illustrate the division of opinion which exists among members of the board as to the proper policy to be pursued in disposing of government vessels. Four of the members including the chairman were in favor of the sale and three including the vice-chairman were opposed to it. Chairman O'Connor, in explanation of the sale, said in part:

"Congress has directed the United States Shipping Board to develop and maintain a merchant marine and has authorized and directed the board to sell ships to Americans who will keep the ships going. The ships in question were duly advertised. Two bids have been received. For these same ships the board had asked $1,500,000 per ship.

"The Stanley Dollar bid is clear-cut. He offers to buy five vessels at $1,125,000 per ship: one third in cash, the balance secured by first mortgage, with interest at 4½% per annum, guarantees operation and in all respects legally binds himself to comply with the terms of sale imposed by the board." [38]

Commissioner Lissner, Chairman of the Ship

[36] *Ibid.*, pp. 80–1.

[37] Ninth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1925. P. 114.

[38] New York *Times*. Apr. 1, 1925. P. 3.

Sales Committee, also defending the sale, said in part:

"The acceptance of the bid of R. Stanley Dollar and his associates, the Dollar Steamship Line, is the culmination of several months of negotiation with representatives of the Pacific Mail and the Dollar interests, which finally resulted in an agreement between the Ship Sales Committee of the board and the bidders on a set of terms and conditions under which it was understood bids were to be filed, leaving open only the matter of price so that easy comparisons might be made of competitive bids without beclouding the issue by varying conditions.

"Notwithstanding this situation, the Pacific Mail put in a bid which not alone disregarded the result of lengthy negotiations in which it had participated, but presented a proposal which the board was advised by its general counsel it could not legally entertain and which in the exercise of common business judgment the board could not seriously consider." [39]

Commissioners Benson, Plummer, and Thompson, who opposed the sale, objected to accepting either offer, on the ground that each involved too great a sacrifice on the part of the government. Commissioner Thompson, in explaining his position, stated that—

"The price paid was only one fourth of, or $15,000,000 less than, the amount it would cost to build

[39] *Ibid.*

the vessels at this time, and one sixth of, or $25,000,000 less than, the original cost of the vessels.

"The San Francisco-Orient line is showing no money loss in operation, therefore not necessitating any sale at this time at sacrifice value to stop any losses requiring moneys from the Treasury of the United States." [40]

A further argument made against the sale of these ships to the Dollar interests was that it created a monopoly of American passenger lines in the Pacific. The Dollar Steamship Company is already the owner of seven of the "President" type of vessels, purchased from the Shipping Board in 1923. With these it operates a round-the-world service from San Francisco, part of the route paralleling the Pacific Mail line. In addition the Dollar Steamship Company is the managing operator of the Admiral Oriental Line whose ships ply from Seattle to the Far East. The acquisition of the Pacific Mail ships thus gives it complete control of all American passenger lines to the Orient.

Whatever advantages and economies may be achieved by giving to one company a monopoly of the Pacific passenger trade, this much seems clear, that for these benefits the Shipping Board paid an extremely high price. The sale of our finest ships at one fourth their present cost of reproduction with a guarantee of only five years of operation

[40] *Ibid.*

and no provision for replacement, seems a high premium to pay for private operation. If the same liberality is shown in disposing of the balance of our fleet it will soon be possible for the government to go out of the shipping business. We can then point with pride to our privately owned merchant marine but it will be a subsidized merchant marine just as clearly as if the government paid an annual bonus to each shipowner. The subsidy represents the annual interest, during the life of the vessel, on the difference between the amount paid for a Shipping Board vessel and the amount it would cost to reproduce such a vessel at the time of purchase. It may be that this method of fostering a merchant marine is desirable but it savors of an attempt to obtain by indirection what the shipping interests were not able to obtain directly from Congress in 1923.

In addition to its active fleet the Emergency Fleet Corporation controls a large number of inactive vessels, which it has been unable to sell or operate at a profit since the war. Most of these are steel cargo ships, the wooden vessels of the corporation having been sold at auction in 1922.[41] In 1923 a careful survey was made of these ships to determine their exact condition and their relative value. No definite price was placed upon them, but a minimum rate per ton, which would be considered a basis for

[41] Seventh Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1923. P. 147.

negotiation, was fixed for each class of vessel. Since June, 1924, purchase has been permitted on a basis of twenty five per cent. cash, and the balance in ten equal annual payments, secured by first mortgage. Under this plan the sales division of the corporation, during the fiscal year of 1924, disposed of 49 steel ships of 355,560 dead-weight tons and 3 wooden and concrete ships of 11,503 dead-weight tons. On July 1, 1924, the total fleet still under the control of the corporation consisted of 1,294 vessels aggregating 8,907,326 dead-weight tons,[42] and on July 1, 1925 the fleet had been further reduced to 1,231 vessels of 8,547,459 dead-weight tons.[43] Deducting from this the active fleet of 2,712,877 tons [44] we have left a total inactive fleet of approximately 6 million tons. In other words seven years after the war two thirds of our government fleet is still inactive. Every effort to put these vessels into service or to dispose of them at seemingly attractive prices has failed.

The factors which have produced this situation are two-fold. First of all the enormous building program undertaken during the war created a world surplus of shipping even after deducting the huge war losses. World commerce was unable to absorb this excess tonnage. The economic depression which followed the war, and from which Europe has

[42] Eighth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1924. P. 94.
[43] Ninth Annual Report of the United States Shipping Board. Government Printing Office, Washington, June 30, 1925. P. 163.
[44] *Ibid.*, p. 182.

not yet recovered, still further decreased the demand for shipping facilities. Consequently the surplus increased rather than diminished. The gradual recovery of European trade is now reducing this surplus but has not gone far enough to eliminate it. The second factor which has made the expansion of our merchant marine difficult is the wage differential. In order to attract and hold American seamen it is necessary to pay wages commensurate with the American standard of living. This increases the labor costs of the American operator about thirty three per cent. over those of his average foreign competitor. This factor is constant and cannot be eliminated by any form of administrative efficiency. It is a handicap for which the operator maintains he receives no compensating advantage. Were it not the policy of the government to man its merchant marine with American seamen he could much more economically employ foreign sailors. It is to the interest of the government however that our own citizens be trained to operate our ships. For this reason it has recently been suggested that the government pay the owner of an American vessel twenty dollars a month for each American seaman he employs, the seaman to be enlisted in the naval reserve, and to receive this bonus only upon the completion of a round trip. This plan, which is sponsored by chairman O'Connor of the Shipping Board, is to be submitted to Congress and if adopted will go far toward enabling the

government to dispose of the balance of its fleet. Final disposition of the fleet will enable the Emergency Fleet Corporation to liquidate most of its assets and terminate its active existence, but its dissolution is not to be expected for some years.

In attempting to pass critical judgment on the work of the Emergency Fleet Corporation certain factors should be borne in mind. In common with other agencies the corporation suffered much from the uncertainties of the war. Had it been endowed with the gift of prophecy and been able to foresee the sudden ending of hostilities its course might have been very different. The great wooden fleet, which proved almost a total loss, would perhaps never have been constructed. It is no fault of the Emergency Fleet Corporation but rather our good fortune that before this fleet could be utilized the need for it had ceased. The only criteria by which the program of the corporation should be judged are its concrete achievements viewed in the light of the conditions then prevailing. When the corporation came into existence the country was at war. It was fighting a foe three thousand miles away. An ocean intervened. The enemy was destroying shipping at the rate of 8 million tons a year. Our annual output was 300,000 tons. In less than two years the corporation had increased the number of our shipyards three hundred per cent. and our shipways nearly four hundred per cent. A few weeks later production in a single

month reached almost 800,000 tons. When the armistice was signed, contracts had been let for 3,000 vessels of 17 million tons. These then are the concrete tangible achievements of the corporation during the war. Since the war it has disposed of surplus material, sold such ships as it economically could, overhauled and repaired many of the others, and in addition has established 71 shipping services in which it employs 30 passenger vessels and nearly 300 freighters. If it succeeds in its policy of disposing of the balance of its fleet under terms and conditions which will insure its continuance on the high seas and under the American flag it will have restored the American merchant marine to its former rank and made us a close rival of England in the transportation of ocean commerce.

The achievements of this, the largest of our government owned corporations, are of a character to lend considerable encouragement to those who advocate the creation by the government of the corporate type of agency for the handling of future commercial enterprises. Such obstacles as the corporation has not been able to overcome are largely inherent in present world conditions and have proved an equal handicap to private shipping interests.

CHAPTER IV

UNITED STATES GRAIN CORPORATION

The entrance of the United States into the World War placed upon our shoulders the responsibility of husbanding our resources, not only for our own efficient prosecution of the war, but also that we might be able to meet the pressing demands of the Allies for those raw materials essential to their own and therefore to our joint success. Of those raw materials none was more essential than food and of the foods wheat and its products easily ranked first in importance.

During the first two years of the European War America had been able to meet the greatly increased demand for her wheat without difficulty due to the extremely bountiful crops of 1914 and 1915.[1] The surplus of these crops permitted an export between July, 1914, and June, 1917, of nearly 600 million bushels of wheat and nearly 44 million barrels of flour.[2] The crops of 1916 and 1917 however were

[1] United States Food Administration. Reference Handbook of Food Statistics in Relation to the War. By R. P. and E. P. Matchett. Government Printing Office, Washington, 1918. Pp. 12, 13.

[2] United States Grain Corporation. Grain and Flour Statistics During the War. A. L. Russell, Statistician, 1919. P. 40.

not greatly in excess of 600 million bushels each as compared with the billion bushel crop of 1915.[3] The short crop of 1916 was not felt in our exports so severely as might have been expected, due to the surplus still remaining from the previous bumper crop. But when this was followed by another short crop in 1917 with no reserves on which to draw the results threatened to be disastrous. Coupled with this shortage—a shortage so severe that it would have been necessary to curtail our normal home consumption even if we had not exported a single bushel—came an increased demand from the Allies, due to the losses caused by the German submarine campaign. Tho there was plenty of grain in Australia and elsewhere, the constantly decreasing tonnage of the Allies made it impractical to send vessels on long journeys where the time consumed more than outweighed the cheapness of the grain. We had then this situation in the summer of 1917—no surplus from the wheat crop of 1916, previous surpluses exhausted, the Allies dependent on us for large exports of wheat and flour, and the prospect of a short crop for 1917.

To meet this situation Congress passed the Food Control Act which was approved Aug. 10, 1917.[4] As stated in the act its purpose was "to provide further for the national security and defense by encouraging the production, conserving the supply, and

[3] *Ibid.*, pp. 38, 39.
[4] 40 U. S. Stat. at L. Pp. 276–287.

controlling the distribution of food products and fuel."

In carrying out the purposes of this act the President was authorized to make such regulations and to issue such orders as were essential, and "to create and use any agency or agencies" which would promote this end.[5] In pursuance of this grant of authority and to carry out the purposes of Congress, the President, on the same day that he signed this act, created the United States Food Administration to supervise the control of food in general, and four days later by executive order [6] provision was made for the incorporation under the laws of Delaware of the Food Administration Grain Corporation to deal with that portion of the food supply connected with wheat and flour production. It is to be noted that this was the first government owned corporation to be created by an executive order of the President and the first to be incorporated under the laws of a state.

The language of this executive order is illuminating as to the purposes which the administration hoped and sought to accomplish by the organization of this type of government agency. After referring to the authority granted under the Food Control Act, which says, "That in carrying out the purpose of this Act the President is authorized . . . to create and use any agency or agencies . . . from

[5] *Ibid.*, Sections 1, 2.
[6] Executive Order 2681. Aug. 14, 1917.

time to time to purchase, to store, to provide storage facilities for and to sell for cash at reasonable prices, wheat, flour, meal, beans, and potatoes," the executive order continues as follows:

"Whereas, in order to enable the United States Food Administration acting under the direction of the President *to efficiently exercise the authority granted* by said act, and to purchase, store, provide storage facilities for and to sell for cash at reasonable prices the commodities above named, and to enable said United States Food Administration *to purchase and sell said commodities in the manner and by methods customarily followed in the trade,* it is expedient and necessary that a Corporation should be organized, all the stock of which, except the number of shares necessary to qualify directors or incorporators, shall be subscribed for, purchased and owned by the United States. Now, therefore, . . . it is hereby ordered that an agency, to-wit, a corporation, under the laws of Delaware be created, said corporation to be named Food Administration Grain Corporation." [7]

The italicized passages in the executive order above quoted indicate clearly that it was believed that the creation of a corporate form of business organization would be in the interest of efficiency and that it would enable the government to carry out this undertaking more nearly in the manner in

[7] Executive Order 2681, Aug. 14, 1917. The italics are interpolated by the present writer.

which it would be handled by private business. It was an attempt then to enlist the efficiency of private business in the interest of the general welfare; to give to this agency complete freedom in the matter of detail [8] but to maintain control over its major policies by the ownership of the capital stock and the appointment of its officers.

The executive order further provided for a Board of Directors composed of seven members, four of whom were named by the President, these four to name the remaining three, all of the directors being subject to removal by the President. Herbert Hoover, who had been appointed United States Food Administrator four days previously, was made Chairman of this board. He was authorized to cause the corporation to be formed and to subscribe for and purchase, in the name of and for the use and benefit of the United States, all of the capital stock of this corporation, which was to consist of 500,000 shares of the par value of $100 each. This stock was to be paid for out of an appropriation of $150,000,000 authorized by section 19 of the Food Control Act. The order further provided that all the officers of the corporation should be selected with the consent and approval of the President.

Thus the new corporation was created. In studying its activities we should keep constantly in

[8] Conference of Representatives of the Grain Trade of the United States. Washington, Aug. 15, 1917. Minutes, p. 10.

mind its peculiar and intimate relations with the Food Administration. Tho nominally and legally an independent organization, in reality it was so closely identified with the Food Administration which created it that often their joint functions could scarcely be separated. While the Food Administration was chiefly concerned with the propaganda and educational phases of food control and while the Grain Corporation was designed primarily to handle the buying and selling phases, nevertheless each agency at times performed functions more logically belonging to the other. For example the licensing of grain dealers was administered in the name of the Food Administration, while several types of conservation and educational propaganda were carried on by the Grain Corporation. This confusion may be partly accounted for by the fact that in many cases the same men were serving as officers and administrators in both organizations. Furthermore the necessities of the hour offered little opportunity for the logical grouping and separation of functions. The coalescence of these two agencies necessitates therefore a study of some of the activities of each for a proper appreciation of the functions of the other. The organization of these agencies having been completed they were immediately confronted with the problem of reducing the cost of bread to the consumer and at the same time of stimulating the production and

conserving the supply of wheat that we might have a surplus to share with the Allies.

The first step in the solution of the problem was felt to be the stabilization of prices. Due to speculation, the short crop, and the bidding of one European government against another, the price of wheat had risen to $3.45 a bushel in Chicago in the spring of 1917.[9] That an effort must be made to reduce this price in the interest of the general welfare was apparent. The Food Control Act had fixed a minimum price of $2.00 a bushel which the government would guarantee for the 1918 wheat crop but had made no provision for the 1917 crop. It was felt that a fair price for the 1917 crop should not be lower than the 1918 guarantee but that it should be considerably lower than the high prices then prevailing. It was not deemed fair that monopoly prices should be allowed to continue because the necessities of war had given us a practical monopoly of the supply available to the Allies. In view of this situation the President appointed a committee, representative of various consuming and producing interests in the country, known as the Fair Price Committee. This committee of eleven men, six of whom represented the farming interests, under the chairmanship of H. A. Garfield, president of Williams College, and son of

[9] United States Grain Corporation. Book of Information. Aug. 23, 1919. P. 10.

former President Garfield, was asked to recommend a fair price for the 1917 crop, which price the government, thru the agency of the Food Administration Grain Corporation, would maintain thruout the entire crop season. The committee reported in part as follows.

"To the President of the United States:

"The undersigned Committee has been asked by you to recommend the price which the Government should pay for the 1917 crop of wheat.

"In its deliberations the committee has kept constantly in mind the three following factors:

"First. The fact that the United States is at war.

"Second. The need of encouraging the producer.

"Third. The necessity of reducing the cost of living to the consumer.

"The normal laws of supply and demand have been violently interfered with and Congress has undertaken to offset this disturbance by conferring extraordinary powers upon the President to stabilize prices. Each of the foregoing factors grows out of conditions which have received the careful attention of the Committee. Chief among them are: That the wheat yield in a great and important section of the country has this year been below the normal; that over against this situation is the crying need among the whole body of the population, especially the wage earners, that the rising tide of costs shall be stayed and reduced as rapidly as possible consistent with the welfare of the producer; that the Government is at the present time engaged in the great task of reducing and stabilizing the cost of other staple commodities; that the wheat of the

world is abundant for its needs, even disregarding the stores in Russia, but because of lack of shipping and war conditions, the burden of supplying wheat to the Allies and to neutral nations rests for the time being upon the United States and Canada.

"In consideration of the foregoing facts and circumstances, this committee respectfully recommends that the price on No. 1 Northern Spring Wheat, or its equivalent, at Chicago, be $2.20 per bushel." [10]

The President accepted this recommendation of the committee and made a public announcement that this price would henceforth be considered a fair price for all transactions in wheat thruout the United States, that it would be maintained strictly by the Food Administration Grain Corporation in all its buying and that it was the hope and expectation of the Food Administration that it would stabilize the entire market.

The Food Administration Grain Corporation was made the sole agency of the government in its wheat buying and proceeded to make the fair price effective thruout the trade by the following plan. The President, under authority conferred by the Food Control Act, issued an executive proclamation requiring elevators and flour mills to secure a license from the United States Food Administration. The Grain Corporation then entered into a series of voluntary agreements with the leading flour mills and elevators thruout the country to

[10] *Op. cit.*, p. 11.

maintain the government fair price in all their purchases. Agreements were made with some 3,000 mills and 14,000 elevators.[11] It was not difficult to induce the mills and elevators to pay no more than the government fair price but many of them were fearful of contracting for a large stock at the government price lest a sudden termination of the war should release the supplies blocked up in other countries and cause a disastrous drop in the price. This fear was largely removed however by assurances that the Grain Corporation would protect them against any losses due to a drop in prices caused by a termination of the war. To further prevent competitive buying among the mills the Grain Corporation agreed to supply each mill as nearly as possible with ninety per cent. of its prewar average consumption and in return for this the mills agreed to abide by the government's fair price.[12] They further agreed, in order to cover the administrative costs of supplying them with this grain, to pay the Grain Corporation one per cent. of the cost of all the wheat supplied them. To supplement these measures the Food Administration forbade all speculation or the selling of wheat futures on the boards of trade, and mills were not allowed to keep more than one month's supply of

[11] *The Story of the United States Grain Corporation.* 42 Broadway New York. Apr. 5, 1920. P. 4.

[12] United States Grain Corporation. "Grain and Flour Statistics During the War." A. L. Russell, Statistician. 1919. Foreword.

wheat on hand. These regulations together with the purchases made by the Grain Corporation at strategic points quickly and effectively stabilized the price of wheat.[13]

That the reduction in price thus achieved might be reflected in the prices paid by the consumer, the Grain Corporation required the flour mills, under threat of forfeiting their licenses, to sell their flour at a net profit not exceeding twenty five cents per barrel. Any excess profit shown by a subsequent balancing of accounts was to be turned over to the Grain Corporation. The middleman's profits were likewise restricted and the difference between the buying and selling price of flour jobbers was limited to seventy five cents a barrel. This seventy five cents had to cover "all expenses of operation—unloading, warehousing, local delivery, discounts, and collections." Jobbers were further forbidden to resell to one another.[14]

Later analysis shows that there were certain defects in the method employed for limiting the millers' profits. The price was fixed higher than was necessary to give the large mills a reasonable profit, in an effort to provide sufficient margin for the small mill, and in the hope that competition would reduce the price among large mills below the maximum.

[13] United States Food Administration and United States Fuel Administration. Report for year 1917. Government Printing Office, Washington, 1918. Exhibit J. Pp. 44–45.

[14] *The Story of the United States Grain Corporation.* 42 Broadway, New York. Apr. 5, 1920. P. 5.

This hope proved largely fallacious. That twenty five cents a barrel was too great a margin of net profit to be allowed in war times may be seen by comparing it with pre-war years. The average net operating profits for representative flour mills for the five years preceding the war were as follows: 1912–3, 11 cents; 1913–4, 16 cents; 1914–5, 22 cents; 1915–6, 19 cents; 1916–7, 52 cents.[15] With the exception of the abnormal year of 1916–7 the mills had never averaged twenty five cents net profit per barrel. In addition the plan of allowing each miller to set his own selling price on the basis of his own figures as to cost was a temptation to pad costs and even if this were not done there was no incentive to efficiency as there was under the plan adopted for controlling jobbers, where the margin between the buying and selling price was fixed and profits depended on efficiency in handling the product.[16]

The problem of controlling the retailer remained. The Food Control Act made no provision for controlling the prices of the retail dealer doing a business of less than $100,000. The Food Administration was compelled therefore to rely on publicity and public opinion. To assist these forces the local food administrators published "fair price" lists

[15] Federal Trade Commission. Report on Flour Milling and Jobbing. Apr. 4, 1918. Government Printing Office, Washington, 1918. P. 13.

[16] *Ibid.*, pp. 20–21.

in each community. In most cases this proved effective. The price of flour, which during May, June, July, and August, had averaged over $13.00 per barrel, dropped to an average of a little over $10.00 during the last three months of the year. The average retail price of flour, which had been 8.7 cents per pound in May, 1917, was reduced to an average of 6.8 cents per pound, a drop of almost 22 per cent., during the last three months of 1917 and the price was still lower thruout the whole of 1918.[17] Bakeries were licensed and altho there was no authority to fix retail prices they were compeled to adopt certain standard practices which made for efficiency and economy. For example they were compelled to make standard loaves of bread weighing one pound, one and a half, two, and four pounds. There had previously been thirty eight sizes and many different varieties. Small loaves, since they were more expensive to bake and to market, were abolished. This standardization made it possible for the baker to sell more cheaply and the consumer to buy more wisely and resulted in a substantial price reduction.[18]

At the same time that the Grain Corporation was directing its efforts toward the regulation of prices, the Food Administration was conducting a

[17] *The Story of the United States Grain Corporation.* 42 Broadway, New York. Apr. 5, 1920. Pp. 6–7.

[18] United States Food Administration. Bulletin No. 11. "The Standard Loaf." Government Printing Office, Washington, 1917. Pp. 2–3.

campaign of conservation in the homes. The people were made to see the importance of lessening consumption that we might have a surplus to export. They were told that not only the wheat crop but the yield of all other cereals in the allied countries was far below normal. Many people could not understand why we should not export our corn, of which we had a bountiful crop, instead of our wheat. The reasons were the lack of facilities in the allied countries for grinding and preparing corn, a food to which Europeans were not accustomed, and the difficulty of shipping it if it were ground in this country, because of its short life. Cornmeal does not keep well at any season and even unground corn cannot be shipped well during the germinating season.[19]

Many novel schemes were used to educate the people in methods of conservation. A systematic plan of saving thruout the week was provided by establishing wheatless days and meatless meals. The use of substitutes was widely encouraged. The public schools were found to be a powerful agency for disseminating this propaganda. Poster and slogan contests were inaugurated in which the children competed for prizes. The results were in some cases most ingenious. A school boy in Indiana produced the following slogan:

[19] Conference of Representatives of the Grain Trade of the United States. New York, Apr. 30, 1918. Minutes. Pp. 10–11.

"Reduce the eat
In wheat and meat,
And toot the tute
In substitute." [20]

As a result of this campaign of food conservation we were able out of our 1917 crop, which be it remembered was smaller than our normal requirements for food and seed, to export 110 million bushels of wheat or its equivalent in flour.

The importance of this export to the Allies and its contribution to the winning of the war can be realized only when viewed in the light of the utter dependence of the peoples of Europe upon this food. At the same time that their wheat supplies were cut off from them by the lack of transportation, their other sources of food supply were rapidly diminishing. During the three years prior to our entry into the war 60 million men had been removed from production to supply the armies and the munitions of war. These 60 million not only decreased the production but required an increased food consumption due to the strain under which they worked. British munition workers averaging eleven hours a day could not be fed on the same amount of food which had formerly sustained them for eight hours. While the food of the civil population could be somewhat curtailed, soldiers in the trenches could not be kept efficient on stinted rations.

[20] Weekly News Letter. Vol. 1, No. 7. State College of Washington Library. Pullman, Washington, Mar. 30, 1918.

The demand for bread was still further accentuated by the diminution among the Allies of their meat and dairy herds the production of which had always been partially dependent on imported feed. Their cattle, sheep, and hogs had been reduced over 30 million animals.[21] In fact their other sources of food supply had been so far curtailed by the spring of 1917 that the proportion of bread in the European diet had risen to between fifty five and sixty five per cent. of the total food as compared with thirty per cent. in the American diet.[22]

This was the situation which the United States Grain Corporation in coöperation with other branches of the Food Administration so successfully and efficiently met. All the wheat and flour shipped to the Allies was purchased and sold to them by the Grain Corporation. In addition the Grain Corporation handled all the wheat and flour which neutrals were allowed to buy and all that was needed by the government for the American Expeditionary Force in France.

The problems which confronted the Grain Corporation in the handling of the 1918 crop were somewhat different from those which arose in connection with the 1917 crop. The Food Control Act had provided a minimum guarantee of $2.00 a

[21] United States Food Administration. Bulletin No. 7. "The Present Campaign." Government Printing Office, Washington, 1917. P. 11.

[22] Hoover, Herbert. Preface to a Report of the United States Food Administration. April, 1920. Pp. 4, 6.

bushel for the 1918 wheat crop with the provision that the President might establish a higher minimum if he deemed it necessary for the proper stimulation of production. A continuation of the $2.20 Fair Price of 1917 was determined upon as the proper minimum for 1918 and was so proclaimed by the President on Feb. 21, 1918. An additional six cents for transportation costs was allowed in June. The Congressional guarantee had already stimulated the planting of 42 million acres of winter wheat and the higher minimum fixed by the President resulted in an additional planting of 22 million acres in the spring. This made a total of almost 65 million acres, the largest in the history of the country. Tho the crop resulting from this acreage was not the greatest we had ever produced it was exceedingly large and reached a total of 921 million bushels.[28] No attempt was made to keep the price of this crop down to the minimum since it was ample to meet all needs, but the laws of supply and demand operated to prevent its rise much above the minimum. After the armistice, when the Allies transferred their buying to more distant and cheaper sources of supply, the price would have dropped much below the minimum had it not been for the large purchases of the Grain Corporation.

The original capital of 50 million dollars, having proved entirely inadequate, was increased by executive order on June 21, 1918, to 150 million dol-

[28] *Ibid.*, p. 27.

lars,[24] the limit of the Congressional appropriation, but even this sum was insufficient to handle the large purchases necessary to sustain the government price guarantee. The Grain Corporation therefore borrowed heavily, the borrowings at one period reaching the enormous total of 385 million dollars. That the Grain Corporation was able to borrow this vast sum in the open market, with the assets of the corporation as the only legal security, is a tribute to the confidence which the business community reposed in the officers and administration of this organization.[25] With this increased capital and credit the Grain Corporation handled about 400 million bushels of the 1918 crop and of this amount it exported about 300 million bushels.

In the summer of 1918 the end of the war could not be foreseen and it was felt that adequate preparation should be made for the 1919 crop. The President therefore issued a proclamation extending the 1918 guarantee to the 1919 crop.[26] This proclamation was made on Sept. 2, 1918, that its stimulation might affect the fall as well as the spring planting for the 1919 harvest. As a result the combined fall and spring planting increased from the previous high mark of 65 million acres in 1918 to a new high record of 73 million acres. This stimulation would not have been permitted could

[24] Executive Order 2884. June 21, 1918.
[25] Hoover, Herbert. *Op. cit.*, p. 28.
[26] Wilson, Woodrow. A Proclamation. No. 1481. Sept. 2, 1918.

the armistice in November have been predicted, but, since the government had pledged its word, no other course remained but to prepare to meet the tremendous loss which seemed inevitable in the face of the apparent over-supply which would be available when the stores blocked up in other countries were released. Accordingly Congress on Mar. 4, 1919, made an appropriation of one billion dollars for maintaining the guarantee on the 1919 crop up to June 1, 1920.[27]

The subsequent turn of events in 1919, however, fortunately prevented the realization of the great losses anticipated by the government. The spring wheat crop was very materially reduced by weather conditions, the dislocation of ocean transportation largely continued and our home consumption increased surprisingly. These three factors combined to keep the supply and demand price at all times above the minimum so that no part of the billion dollar appropriation was required to make good losses incurred in maintaining the government guarantee.

The administration of this guarantee was, by executive order, placed in the hands of the United States Wheat Director, Julius H. Barnes, who was instructed, in carrying out this purpose, to utilize the services of the Food Administration Grain Corporation. Since the Grain Corporation had been formed in connection with the Food Adminis-

[27] 40 U. S. Stat. at L. Pp. 1348–1353.

tration, which was preparing to terminate its work as rapidly as possible, it was ordered to close its books as such corporation on June 30, 1919, and thereafter to take steps to change its name to the United States Grain Corporation. The new Wheat Director, Julius H. Barnes, was made the executive officer of the reorganized corporation and ordered to increase its capital stock to 500 million dollars out of the billion dollar appropriation made by Congress.[28] This increased capitalization made it one of the largest corporations in existence.

It was this corporation with its new name and its increased capital that administered the government guarantee on the 1919 crop. Its purchases up to June 1, 1920, totaled 138 million bushels, the largest part of which was exported. The corporation, instead of absorbing a tremendous loss as had been anticipated, actually made a profit during the year of $3,725,000.[29]

In order to maintain the 1919 guarantee at all times and all places, the Grain Corporation entered into a series of agreements with 4,000 millers, 4,700 bakers, 6,700 flour jobbers, and about 18,000 elevators. These agreements protected the Grain Corporation against undue enhancement of its liabilities and the dealer against losses due to a

[28] Executive Order 3087. May 14, 1919.

[29] United States Grain Corporation. Book of Information. Aug. 23, 1919. Later insert following page 42. Pp. 1, 4.

drop in the price below the guarantee.[30] It was unnecessary for the Grain Corporation to carry out the great majority of these contracts as the price at all times and on nearly all grades remained above the guarantee, thus preventing any loss by the dealer. The fact that the Grain Corporation stood ready to buy at any time and did buy all grain offered at the minimum, had a very appreciable effect in stabilizing wheat prices and thereby encouraged dealers to operate on a narrower margin. When prices are fluctuating and uncertain, the average dealer, who has no desire to speculate, must do business on a wider margin of profit to protect himself. It was the constant policy of the Grain Corporation, not only during but after the war, to reduce this margin and thus at the same time benefit both the producer and the consumer. The success of this policy is indicated by the following table:[31]

Comparison of Average Relative Prices of Wheat, Flour, and Bread for the United States 1913–1919

Year	*Farm Price of Wheat*	*Retail Price of Flour*	*Retail Price of Bread*
1913	100	100	100
1914	109	104	112
1915	142	126	124
1916	148	135	130

[30] *Ibid.*, later insert, p. 3.

[31] *The Story of the United States Grain Corporation.* 42 Broadway, New York. Apr. 5, 1920. P. 15.

1917	254	211	164
1918	257	203	175
1919	271	218	179
1920 January	298	245	189

It will be noted that with one exception the price of wheat advanced faster than the price of bread and that whereas wheat advanced 198 per cent. during this period, bread advanced but 89 per cent.

During 1919 and 1920, when the unprecedented demand of the American consumer for low extraction flour sent the price soaring, the Grain Corporation in an effort to help the consumer placed on the market what was known as Grain Corporation Flour. This flour was part of the supply which the corporation had purchased for export. It was made of soft winter wheat and while not of as low extraction as the popularly advertised brands it was known to be more healthful [32] and was offered at prices considerably lower than the well known brands. At first this flour was sold only in carload lots but in December, 1919, it was offered to the retail trade in appropriate package sizes under the trade name of United States Grain Corporation Standard Pure Wheat Flour. Many people were under the impression that this flour was similar to the substitute or Victory flour of war days and it was found very difficult to educate the public to

[32] Dutcher, R. A. *Shall We Eat Whole Wheat Bread?* Science N. S. Vol. XLVII. No. 1210. Mar. 8, 1918. Pp. 228–232.

its merits and economy. Nearly half a million barrels had been sold by the end of March however and this served to relieve the demand for and consequently reduce the price of the lower extraction flour.[33]

Of the 1919 crop of wheat, one grade, the soft winter variety, which was unusually plentiful, was not in great demand, and the Grain Corporation was compelled to buy large quantities of it to protect the government guarantee. By the spring of 1920 the corporation had accumulated about 5 million barrels of flour made from this wheat, which it was unable to sell in this country without a loss. A bill was before Congress authorizing a fifty million dollar appropriation for general relief in Europe. The Wheat Director, the executive officer of the Grain Corporation, asked for authority to dispose of these 5 million barrels on credit to relieve starvation in Austria and elsewhere. This authority was granted [34] and the flour was sold to Austria on twenty five years' credit, the loan being secured by a lien on all Austria's assets.

This was but a small part however of the Grain Corporation's contribution to European relief. During the war the corporation handled not only all the cereals and flour for the allied governments and for our own government but all the supplies

[33] *The Story of the United States Grain Corporation.* 42 Broadway, New York, Apr. 5, 1920. P. 13.

[34] 41 U. S. Stat. at L. Pp. 548–549.

and food purchased by the Commission for Relief in Belgium. After the war the sphere of its activities was extended to Europe where it proceeded to act as the buying agent for the American Relief Administration. This administration, of which Mr. Hoover was Director General, was organized to distribute the 100 million dollars appropriated by Congress on Feb. 24, 1919, for the purchase of foodstuffs for European relief outside of enemy countries. With this administration were coördinated the other relief organizations of Europe. From December, 1918, to August, 1919, the combined agencies distributed nearly 5 million tons of foodstuffs and other necessities, the value of which was over a billion dollars. This distribution covered twenty three countries in Europe and Asia. Of these supplies the United States contributed nearly 3 million tons, the greater part of which was handled by the Grain Corporation. In such transactions however its own funds were not involved since it acted only as agent.[35]

Certain special and somewhat auxiliary phases of the corporation's work in this country deserve special mention. In the spring of 1918 the corporation organized a Grain Threshing Division, with the purpose of eliminating if possible all wasteful methods of threshing. County committees were appointed in approximately one thousand counties in

[35] *The Story of the United States Grain Corporation.* 42 Broadway, New York, Apr. 5, 1920. Pp. 16–17.

thirty two states. Thru these committees experts employed by the Grain Corporation were able to establish direct contacts with threshing machine crews and operators and eliminate much waste due to improperly adjusted and misused machinery. In Ohio these committees waged an effective educational campaign by means of posters of which the following is an example.[36]

I AM THE THRESHING MACHINE

I am a masterpiece of manufacturing skill, capable of doing my work perfectly when set level, properly adjusted and operated.

I am a cog in the Food Administration machine, saving and conserving food for ourselves and our allies.

During 1917 the estimated loss of wheat and rye during the threshing season was over 900,000 bushels for Ohio alone.

Help me to do my "bit" for Uncle Sam and reduce this loss to a minimum by complying with the following requests:

Here followed a set of directions for operating the machine properly and eliminating careless practices in the handling of the grain.

In all this work the Department of Agriculture cooperated actively.[37] It is estimated that these improved threshing methods saved 30 million bushels

[36] *A Brief History of the Activities of the United States Food Administration in Ohio.* 1919. Pp. 83–84.

[37] United States Food Administration. Annual Report for Year 1918. Government Printing Office, Washington, 1919. P. 11.

of wheat worth 60 million dollars—a saving which was achieved by the Grain Corporation at a cost of $60,000, or only one per cent.[38] The value of work of this character however cannot be measured by one year's economies. The effect is permanent and continues year after year.

Another phase of the corporation's educational work of permanent constructive value, was that which dealt with grain dust explosions. A campaign for the prevention of such explosions was inaugurated by the Department of Agriculture in October, 1917, in an effort to conserve the national food supply. This work was conducted thru the Bureau of Chemistry in coöperation with the Food Administration and other conservation agencies. The Grain Corporation became interested in this work because of the large stocks of grain in its possession. It was the policy of the corporation to carry no fire or other insurance on its stocks since any loss which occurred was in reality a national loss and could be borne more equitably by the government than by a private insurance company. This policy made it doubly important therefore that the corporation take every precaution to protect its stocks. The average value of these stocks from Oct. 1, 1917, to July 1, 1919, was approximately 100 million dollars. At one time the corporation

[38] *The Story of the United States Grain Corporation.* 42 Broadway, New York, Apr. 5, 1920. P. 18.

held nearly half a billion dollars' worth of grain. Had the ordinary insurance premiums been paid on these holdings, the cost would have been about 3 million dollars. If the usual losses could be prevented or reduced it was believed that much of this 3 million would be net gain. For these reasons the Grain Corporation was extremely anxious that the prevention campaign should succeed. The war emergency appropriation under which the Department of Agriculture was carrying on this work terminated on June 30, 1919, and altho much had already been achieved it was felt that the work should not cease. The Grain Corporation therefore agreed to continue the work to the extent necessary to protect its holdings.[39]

Dr. J. W. T. Duvel was placed in charge of the Grain Dust Explosion Prevention Campaign. The country was originally divided into five districts, later into three. A careful record was kept of the condition of every large plant, based on a system of monthly inspections. In the Central and Northwestern districts 855 inspections were made while the Grain Corporation controlled the work. Each plant was rated at each inspection on the following basis. Equipment was graded either A, B, or C, and Maintenance was graded either A, B, or C. These grades stood for the following:

[39] United States Grain Corporation. Proceedings of Conference of Men Engaged in Grain Dust Explosion and Fire Prevention Conducted in Coöperation with Bureau of Chemistry Department of Agriculture, Apr. 22–24, 1920. New York City. P. 150.

	EQUIPMENT	MAINTENANCE
A.	Modern, first class, up to date appliances	A. Good
B.	Fair, not new	B. Fair
C.	Old, not representative	C. Poor

If a plant were well constructed and used modern machinery it would be given a grade of A on Equipment. If proper precautions had been taken to prevent dust explosions and fire hazards it would be rated A for Maintenance. Its rating would then be AA. If its equipment were good but if dust were not looked after as carefully as possible its grade would be AB. If a plant's machinery were old and out of date and it was found to be dirty and full of dust its rating would be CC. It was then possible on subsequent inspections by referring to the previous rating to determine what progress or improvement had been made. These records were sent first to the district headquarters and then to the national headquarters.[40]

In addition to this work of inspection a constant compaign of education was carried on. Posters were distributed showing methods of reducing hazards. Talks for employees were arranged in cooperation with the owners of the mills. Moving pictures were used and lectures were arranged at conventions and conferences of grain dealers. Particular interest was aroused by the demonstration

[40] *Ibid.*, pp. 78, 80, 154, 155.

of miniature explosions before the audience. Cardboard elevators were made and explosions produced in them by sifting dust thru cheesecloth on to a burning match. The demonstrations were not limited to explosions of grain dust but included flour, cornstarch, wood dust, spice dust, and pulverized sugar.[41]

The inspectors and demonstrators found many curious situations. In some elevators they found electric light bulbs so placed that at times they were in danger of becoming completely covered with grain. In the Northwest they found a tradition that the dampness of the atmosphere was ample safeguard against explosions. Nevertheless the demonstrators were able to take dust from any of the elevators and produce miniature explosions with it even on the damp days.

It was not always easy for the demonstrators to overcome habit and tradition. They had often to meet the apathy expressed in the statement, "We've operated this elevator for forty years without an explosion; guess there isn't any danger." Several very serious explosions took place during the year in private industries which served as object lessons to offset the above attitude. On the whole it may be said that the coöperation met with by the Grain Corporation was excellent. This coöperation came not only from members of the trade, but from insurance companies, electric companies, accident commissions, safety bureaus, and fire departments.

[41] *Ibid.*, pp. 74–76.

The coöperation of city and state officials was particularly fruitful. In Minneapolis, the center of the flour milling industry, a campaign on explosion prevention methods was conducted in coöperation with the city Fire Department. Firemen were taught for example that it is dangerous to turn a stream of water into a cloud of dust. As a result of this campaign the Fire Chief has his men make regular inspections of the elevators in the city.

In California state officials assigned an engineer with a motor car to assist the Grain Corporation inspector. Even the Dominion Fire Commissioner of Canada requested coöperation and a demonstration meeting was held at Ft. William, Ontario. Private industries likewise appreciated the value of this work to the extent of offering to bear part of the expense of carrying it on.[42]

The Grain Corporation also conducted experimental work to determine more fully the cause of explosions. A concrete and steel fireproof structure was destroyed in Milwaukee in May, 1919, by explosion. On being rebuilt a suction dust removing system was installed and it was found that this collected eight grain sacks of dust per day which would otherwise have been floating in the air or collecting in the plant. Such problems were studied as the breaking of electric bulbs, the effects of static electricity produced by moving belts, and the construction of walls thin enough so that they could be

[42] *Ibid.*, pp. 156, 157, 152, 41–42, 79, 80, 82, 83.

blown out without shattering the entire structure.[43]

The effectiveness of this Dust Explosion and Fire Prevention Campaign can best be judged by the reduction in the losses from this source after the campaign was inaugurated. In twelve months in 1919 and 1920 other industries lost over 7 million dollars and eighty lives, while in three years the Grain Corporation had no losses by fire and only one small explosion loss of about $25,000.[44] This phase of the corporation's work made possible then a saving in insurance of almost 3 million dollars and like the grain threshing work its educational value goes on year after year.

Thus far little has been said of the men who administered and carried out the work of the United States Grain Corporation, yet the personalities of these men and the character of the service they rendered were perhaps the most important factors in the results attained by this governmental agency.

As previously stated, Mr. Hoover was the Chairman of the Board of Directors but since he was concerned with the wider problem of supervising the entire Food Administration the task of direct supervision of the Grain Corporation rested chiefly upon the shoulders of Julius H. Barnes, the first President of the corporation, who later became the Wheat Director. Before being appointed to the supervision of the Grain Corporation Mr. Barnes

[43] *Op. cit.*, pp. 38–39.
[44] *Op. cit.*, p. 149.

had been one of the largest grain dealers and exporters in the country. When asked to take up this work, he, in common with the other officers of the corporation, severed all connection with his previous interests and gave his entire time to the government work without compensation or salary. Mr. Hoover had set this example and it was felt that the officers of the Grain Corporation could do no less. A vice-president, secretary, treasurer, counsel, transport executive, and thirteen second vice-presidents were appointed, each of the latter in charge of one of the fourteen zones into which the country was divided. Headquarters were established at 42 Broadway, New York City.

The fourteen zones were drawn so that geographically and commercially they would center about terminal markets. These terminal markets were as follows: New York, St. Louis, Portland, Ore., New Orleans, Philadelphia, Duluth, Minneapolis, Baltimore, Chicago, Buffalo, San Francisco, Kansas City, Omaha, and Galveston. The territorial extent of the zones surrounding these terminals varied greatly as might be expected due to the natural growth of the crop which they were designed to handle. Two of the zones, the third and sixth, were limited to the city in which the terminal market and buying agency were located. The fourteenth zone included only Duluth and one neighboring county in Wisconsin. Other zones ranged in size from a part of one state to a district embrac-

ing all or part of twelve states, as did the eleventh district with headquarters at St. Louis. It should be noted that in only four zones was it found practical to delimit the district exclusively along state boundaries. Apparently the principle was followed of utilizing state boundaries where convenient but only in so far as they did not interfere with natural economic and commercial trade routes. Six subagencies were also established for convenience. These were each under the control of an agency at one of the main terminal markets.[45]

In each of these fourteen terminal markets the Grain Corporation was represented by a Second Vice-President, who acted as Zone Agent and Government Buyer for his district. In addition to the work of buying grain each zone agency performed an important function in connection with the gathering of statistics. In order to conduct its work intelligently the Grain Corporation found it necessary to develop an elaborate system of reports. All licensed elevators and mills were required to make reports weekly showing the movement of all stocks and grains. A special investigation was also made by the milling division of the Food Administration to determine the pre-war activities of mills in order that the short crop of 1917 might be distributed equitably. During the first year the Grain Corporation handled all reports from elevators, and

[45] United States Grain Corporation. Book of Information. Aug. 23, 1919. Pp. 20–21, 22, 39.

the milling division all reports from mills. After the first year the Grain Corporation handled all reports from both sources. The information from each elevator and mill within the zone was received directly by the zone agency and there coördinated and tabulated by states after which it was sent to the main office in New York. It was then possible to make a very accurate estimate of all grain remaining on the farms as well as that in storage and in transit.[46] This information was particularly useful in connection with the transportation problem. Tho the Railroad Administration coöperated willingly, the heavy burden thrown upon our transportation system both during and after the war made the problem of moving grain a very complicated one. With a knowledge of just how fast the grain was moving from the farms the Grain Corporation was able to plan ahead and thus simplify the problem appreciably. Even tho the grain was as a rule moved very expeditiously some criticism arose at certain times in limited sections of the country.

In 1919 a resolution was introduced in the United States Senate directing the Committee on Agriculture and Forestry to investigate immediately the reasons for the embargo on wheat and why transportation was not available to move the wheat of Oklahoma, Kansas, Texas, Colorado, and other states, and what steps the Grain Corporation had

[46] United States Grain Corporation. Grain and Flour Statistics During the War. A. L. Russell, Statistician. 1919. Foreword.

taken to obtain ships for the movement of such grain.[47] In the hearing on this resolution, which began Oct. 25, 1919, Mr. Barnes, the Director of the Grain Corporation, presented figures showing that the wheat crop for the year was not being held back by lack of transportation but was in fact moving faster than it moved in normal years. As nothing in the hearing served to refute these figures it must be concluded that the complaints arose over unusual and isolated cases.[48] Again in the early part of 1920 a bill was introduced in the United States Senate providing for the discontinuance of purchase and sale of grain by the Grain Corporation. This bill was introduced and sponsored by Senator Gronna. The minutes of the hearing held on this bill indicate clearly that the Senator either had a strong prejudice against the Director of the corporation or was trying to capitalize for political purposes the discontent of isolated individuals who felt personally agrieved by certain policies of the corporation the purport of which they did not understand. A typical illustration was the complaint of a Maryland farmer, who had recently been elected to the Maryland State Senate. His testimony showed that altho he wished to have the Wheat

[47] Senate Resolution 211. United States Senate, Sixty-sixth Congress, First Session.

[48] Transportation of Wheat. Hearings before Committee on Agriculture and Forestry. United States Senate Sixty-sixth Congress, First Session. Pursuant to Senate Resolution 211. Government Printing Office, Washington, 1920. Pp. 15, 56.

Guarantee extended for three years he wanted the Grain Corporation abolished. His particular grievance was with the standardized methods which the Grain Corporation had adopted for grading wheat throughout the United States. The government guaranteed price was paid only for Number One grades. Poorer qualities were purchased at a discount, the amount of discount depending on the grade as determined by the grading machine. The machine had shown this farmer's grain to be considerably below standard and henceforth it became in his eyes the Grain Corporation's "skinning machine."

The great majority of the witnesses however testified against the Gronna bill and in favor of allowing the corporation to continue its policies until June 1, 1920, when the government guarantee would expire by statutory limitation.[49] Due to the overwhelming weight of testimony against the Gronna bill it never became a law and the Grain Corporation continued to function in the usual way until June first after which it proceeded to liquidate its assets.

On June 26, 1920, the Wheat Director, Julius H. Barnes, was authorized by executive order to reduce the capital stock of the Grain Corporation from 500 to 150 million dollars, paying par value

[49] Hearing before Committee on Agriculture and Forestry. United States Senate, Sixty-sixth Congress, Second Session, on Senate 3844. Government Printing Office, Washington, 1920. Pp. 33–34, 4–16, 53–56, 21.

or one hundred dollars each for 3,500,000 shares of its stock held by the government. The money paid for this stock was to be turned into the Treasury of the United States as miscellaneous receipts.[50] Again on Aug. 18, 1920, a further reduction from 150 to 50 million dollars was authorized.[51] On Aug. 21, 1920, the United States Food Administration was abolished and the resignation of Julius H. Barnes, President and Director of the United States Grain Corporation, was accepted. The Food Administration was ordered to turn over its books to the Grain Corporation, these to be later turned over to the Treasury Department, and the Grain Corporation was authorized to continue such reasonable length of time as should be necessary to wind up its affairs, liquidate its property, and dissolve according to the laws of Delaware. The Board of Directors was reduced from seven members to three and Edwin P. Shattuck was authorized to act as President and Director and to select the other officers and Directors with the approval of the President. The order further provided that upon the liquidation of the corporation's assets all the capital stock was to be retired and the entire property of the United States Grain Corporation to be accepted in full payment for the entire stock.[52] It will be noted that this last provision was designed

[50] Executive Order 3292. June 26, 1920.
[51] Executive Order 3319. Aug. 18. 1920.
[52] Executive Order 3320. Aug. 21, 1920.

to take care of either a profit or a loss when the final balance of the books was made.

On Dec. 22, 1921, the President approved an Act of Congress providing for the relief of distressed and starving people in Russia, and two days later he issued an executive order directing the United States Grain Corporation to act as fiscal agent for the Purchasing Commission for Russian Relief, which the President had appointed, and to pay, out of its available funds, bills and obligations incurred by the commission up to 20 million dollars.[53]

On June 27, 1922, a further executive order accepted the resignation of Edwin P. Shattuck as Director and President of the United States Grain Corporation, and designated Edward M. Flesh, the Vice-President and Treasurer, to act thereafter during the pleasure of the President, as Director and as President and Treasurer of the corporation.[54] No further change has occurred in the status of the corporation but further reductions in stock and personnel will probably occur as the liquidation of its assets continues.

At the close of its three years of active existence the Grain Corporation not only had intact all of its original capital stock but showed in addition a substantial net profit. The profits from August, 1917, to July, 1919, during which period it was

[53] Executive Order 3601. Dec. 24, 1921.
[54] Executive Order 3700. June 27, 1922.

known as the Food Administration Grain Corporation, were approximately 24 million dollars. Part of this gain represents a refund of all profit in excess of twenty five cents per barrel by the millers in accordance with their contracts with the Grain Corporation. The greater part however was profit made from the sale of grain to neutrals. In view of the extortionate rates which they were charging for their shipping it was deemed fair that they should be charged a price which would at least care for the administrative expenses of the Grain Corporation.[55] From July 1, 1919, to June 1, 1920, while operating as the United States Grain Corporation, $3,725,000 additional profits were made.[56] Thus the corporation, created with no thought of direct profit, but designed rather, for certain periods at least, to absorb a loss for the good of the country, closed its active work with a profit which was sufficient to have left a substantial margin even if it had paid five per cent. interest to the national treasury on all of its capital stock. This is indeed a remarkable record and is perhaps the best evidence of the efficiency with which the work of this corporation was conducted. In summarizing the history of the United States Grain Corporation the following phases of its work appear most worthy of recapitulation. It succeeded in

[55] Hoover, Herbert. Preface to a Report of the United States Food Administration. April, 1920. P. 28.

[56] United States Grain Corporation. Book of Information. Aug. 23, 1919. Later insert, following page 42. P. 4.

creating and exporting a large surplus of wheat out of the short crop of 1917 when the Allies were in greatest need of it. At the same time it prevented the price from soaring to speculative levels and thus protected the great mass of wage earners against profiteering in their chief food. Thruout the war it was the main factor in stabilizing the price of wheat, flour, and bread. It handled in an efficient and economical manner the buying of all cereals for the Allies, the neutrals, the European Relief administrative agencies, and for our army and navy. It conducted extensive educational campaigns in improved grain threshing methods, and the prevention of grain dust explosions. And lastly it taught the members of the grain trade,[57] and the people of the United States the possibilities and the great advantages of coöperation in supplying the nation with one of the great necessities of life.

[57] Conference of Grain and Flour Trade Representatives with the United States Wheat Director, Julius H. Barnes. Chicago, May 7, 1920. P. 16.

CHAPTER V

WAR FINANCE CORPORATION

The War Finance Corporation was the third great corporation to be created by the government as a result of our entry into the World War. Unlike the Grain Corporation it was created directly by an act of Congress. This act was approved on Apr. 5, 1918, just a year, lacking one day, after our declaration of war. Thruout this year there had been unprecedented borrowing on the part of the government to meet the demands of the war emergency. There was every prospect that these demands and this borrowing would continue as long as the war lasted. Under these conditions it was feared that surplus capital would become scarce and unobtainable and that many essential industries would be unable to borrow needed funds.[1] To guard against this hardship and especially to prevent the crippling of those industries essential to the successful prosecution of the war, Congress passed the War Finance Corporation Act.[2]

The organization of the corporation as laid down in the act is as follows. The Secretary of the

[1] Sixty-fifth Congress, Second Session. House of Representatives Report No. 369. Pp. 1–2.

[2] 40 U. S. Stat. at L. Pp. 506–515.

Treasury and four other persons, namely, the directors, "are hereby created a body corporate and politic in deed and in law by the name, style, and title of the War Finance Corporation. . . ." It shall have succession for a period of ten years, provided, however, that after six months following the termination of the war it shall not exercise any powers except such as are incidental to the liquidation of its assets and the closing up of its affairs.

The capital stock of this corporation shall be $500,000,000, all of which shall be subscribed by the United States of America. The management of the corporation shall be vested in a Board of Directors, consisting of the Secretary of the Treasury, as chairman, and four other persons appointed by the President with the advice and consent of the Senate. Of the first appointees two shall serve for two years and two for four years. Thereafter each director shall be appointed for four years. All are subject to removal by the President. Three members of the board shall constitute a quorum. The salary of each director shall be $12,000 annually less any amount which he is already receiving as a government employee.

Among the corporate powers conferred in the act are the right to use a seal, make contracts, purchase and lease real estate, sue and be sued, complain or defend in any court having jurisdiction, either state or federal, and the right to hire and discharge employees.

Any bonds which the corporation may issue shall be exempt from all taxes except income, excess profit, and war profit taxes, and interest on bonds up to $5,000 shall be exempt even from the above taxes. The corporation, itself, shall be exempt from all taxes except on real estate, which may be taxed in the same way as other real estate.

The act further provides that the United States shall not be liable for any bond of the corporation or interest thereon, nor for any act or omission of the corporation, but the Secretary of the Treasury is authorized to use the Secret Service of the United States to detect and arrest anyone acting fraudulently in connection with the corporation. The act also requires that a quarterly and an annual report be made to Congress setting forth in detail the financial operations of the corporation.

It will be seen from the foregoing outline that this corporation varied considerably from all three types which preceded it. In method and organization it had almost nothing in common with its immediate predecessor, the United States Grain Corporation. In a few respects it resembled the Emergency Fleet Corporation, but it closely paralleled only the Federal Land Banks. Even they were clearly differentiated by the provision for private ownership.

The War Finance Corporation differed from its predecessors not only in organization but also in the work for which it was designed. It was created

to furnish a type of credit which neither the Federal Reserve Banks nor the Federal Land Banks were able to provide.[3] The Federal Reserve Banks could extend credit by rediscounting short-term paper and government bonds and the Federal Land Banks could loan money for agricultural purposes on long-time credit secured by farm mortgages. Neither agency however could furnish the long-time credit needed by industrial enterprises or the intermediate credit required by agricultural marketing associations and neither could loan money on industrial bonds. By furnishing this type of credit the War Finance Corporation filled a distinct gap in our financial system and temporarily strengthened it at its weakest point.

The Board of Directors was organized and took the oath of office on May 17, 1918.[4] It consisted of the following members: William G. McAdoo, chairman, W. P. G. Harding, Clifford M. Leonard, Eugene Meyer, Jr., and Angus W. McLean. The corporation began to function on May 20, 1918. Under the terms of the act it was permitted to make loans either directly to industrial companies or to banking institutions which had extended credit to such enterprises. During the first six months of operation, which covered approximately the period from organization until the armistice, the corpora-

[3] Sixty-fifth Congress, Second Session. Senate Report No. 286. Pp. 8–9.

[4] First Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1918. P. 8.

tion received ninety nine applications, totaling 175 million dollars, for advances to public utility companies. Ten of these were applications for loans through banks or trust companies as provided for under section seven of the act and eighty nine were for direct loans permitted under section nine. Of the ten applications six were granted while of the eighty nine only ten were approved. These six loans totaled approximately 2 million dollars and the ten loans 40 million dollars.[5] The amount of these loans represents however only a small fraction of the credit relief actually provided, for the board found by experience that the mere assurance that credit was available often proved sufficient help to enable a company to secure credit elsewhere.

A great many applications were not approved by the board. The policy was adopted of avoiding loans for purposes involving speculation as to the duration of the war, or loans whose security would be injured by the cancellation of war contracts. The board was particularly successful in its policy of encouraging private capital to finance essential industries. It achieved this result by setting the example and furnishing part but not all of the capital required, thereby encouraging the holders of maturing securities to renew the loans and even inducing new capital to come forward. To illustrate, the canning industry found it difficult for a

[5] *Ibid.*, p. 5.

time to secure needed funds but as soon as the War Finance Corporation had shown its faith in the credit of the industry by advancing some two hundred thousand dollars confidence was restored and no further advances by the corporation were necessary. The same principle was followed in financing public utility companies. For example the War Finance Corporation purchased $34,977,000 worth of securities from six of these companies and thereby enabled them to dispose of $109,482,00 worth of securities elsewhere.[6]

To assist the cattle industry of the Southwest the board established cattle loan agencies at Dallas and Kansas City. These agencies examined the applications for loans in their respective sections and made recommendations to the board. By this means more than 3½ million dollars was loaned to the cattle industry.

The rate of interest which the War Finance Corporation charged for its loans varied from five to eight per cent. This variation was due to its policy of charging whatever rate was current in each class of loans in order that business might not be diverted from its ordinary channels. Since the corporation was operated primarily to assist essential industries rather than to accumulate profits this was felt to be the fairest method.

The authorized capital of the corporation was

[6] Second Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1919. P. 2.

500 million dollars but up to Nov. 30, 1918, only 140 million had been called in. With this capital the board conducted the foregoing loaning operations and in addition purchased 378 million dollars' worth of government bonds and sold 272 million dollars' worth. On these transactions it made a gross profit of $2,851,383.48. The administrative expenses for this six months period were $73,262.73 leaving a net profit of $2,778,120.75.[7]

With the signing of the armistice there came a relaxation in the credit situation in many industries. Though the War Finance Corporation was empowered to continue actively for six months after the termination of the war it undertook new business in only one or two fields. Most of the advances made during the year were confined to previous commitments. The one important exception was in the field of railway loans. The need for efficient operation of the railroads during demobilization was deemed sufficient justification for extending to them this emergency credit.

The board again followed the policy, which had been so successful the previous year, of advancing a part of needed capital and encouraging private interests to advance the rest. By thus coöperating with private capital the corporation succeeded in placing note issues for five railroads totaling 43 million dollars of which it took less than 16 million

[7] First Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1918. Pp. 9, 10, 11.

dollars. In all about 90 million dollars was advanced to railroad companies on the recommendation of the United States Railroad Administration. The corporation also assisted bankers and the Railroad Administration in financing a consolidated equipment trust which supplied 400 million dollars' worth of equipment ordered by the administration during the war.[8]

During the year the corporation continued to exercise its function as a dealer in government securities under section eleven of the act creating it. More than a billion dollars' worth of Victory and Liberty bonds were purchased about three fourths of which were sold to the Secretary of the Treasury. In addition some 300 million dollars were invested in Treasury Certificates of Indebtedness.[9]

To handle these enormous purchases the entire authorized capital stock of 500 million dollars was utilized. Even this proved insufficient and the corporation therefore issued 200 million dollars' worth of one year five per cent. bonds. These were quickly and quietly taken by the market just prior to the issue of the Victory Loan bonds.[10]

During the year the War Finance Corporation Act was amended by the addition of section twenty one, approved Mar. 3, 1919, which extended the active life of the corporation and authorized it to

[8] Second Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1919. Pp. 3, 4.
[9] *Ibid.*, p. 7.
[10] *Ibid.*, pp. 7, 8.

make loans to export corporations or to banks which had made loans to such companies. Under this authority the corporation entered an entirely new field of activity and made preparation to assist in financing the export trade of the country. Applications began coming in but no loans were made under this amendment until the following year.

The total transactions of the corporation during 1919, while narrower in scope, were much greater in volume, than those carried on during the war. The net earnings for 1919 were $18,431,375.94,[11] as compared with less than 3 million up to Nov. 30, 1918. These earnings in accordance with section fifteen of the original act are set aside and constitute the reserve fund of the corporation.

On Apr. 1, 1920, all of the corporation's 200 million dollar bond issue of the preceding year was retired with the exception of $115,000 which was not presented for payment.[12]

During 1920 the corporation was concerned primarily with loans for export purposes, authorized by the amendment of the preceding March. In all other fields outstanding loans were reduced. At the request of the Secretary of the Treasury, who felt that the need had passed, loans to export corporations were discontinued on May 10, 1920. Previous commitments were carried out however

[11] *Ibid.*, p. 11.

[12] Third Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1920. P. 8.

and loans for this purpose totaled 46 million dollars during the year.[13]

Until June 30, 1920, the corporation was the chief agency through which the Treasury purchased Liberty and Victory bonds from its bond purchase fund. Then the policy of the Treasury changed and these purchases were largely discontinued. The corporation was compelled however by a mandatory act of Congress, approved May 8, 1920, to purchase Liberty bonds from the Railroad Administration at par. More than 43 million dollars' worth of these bonds were purchased during the year. Most of these were later sold to the Treasury at par.[14]

As previously stated the efforts of the War Finance Corporation to assist exports had ceased in May, 1920, but in January, 1921, Congress, overriding a presidential veto,[15] adopted a joint resolution directing the resumption of its activities in financing the exportation of agricultural and other products.[16] The corporation therefore renewed its efforts in this field. Circulars were prepared outlining the terms and conditions under which these loans would be handled and special application forms were sent to those interested.[17] Cotton

[13] *Ibid.*, pp. 4, 5.

[14] *Ibid.*, p. 6.

[15] Sixty-sixth Congress, Third Session. Senate Document No. 350.

[16] 41 U. S. Stat. at L. Pp. 1084–5.

[17] War Finance Corporation. Circular No. 1. May 14, 1921. Government Printing Office, Washington, 1921.

is our greatest agricultural export and consequently was given first attention. A special effort was made to assist coöperative associations throughout the South. In all the corporation financed the exportation of about one million bales of cotton. Confidence was restored, the whole situation in the South was improved, and the increased prosperity was reflected in other sections of the country.[18] The corporation also assisted in financing the exportation of wheat, dried fruits, canned fruit and vegetables, tobacco, condensed milk, and meat products.

Due to conditions prevailing in Europe at this time exports had to be sold over longer periods than usual. This necessitated holding them in stock longer in this country and made financing more difficult. To meet this situation Congress on Aug. 24, 1921, again amended the War Finance Corporation Act. This amendment broadened the powers of the corporation and allowed it to finance dealers in agricultural products as well as exporters. It also permitted advances to banking institutions which had extended credit to such dealers. Advances could be made for one year and extended at the discretion of the corporation up to three years. The aggregate amount which could be outstanding for this purpose at any one time was limited to one billion dollars and the corporation

[18] Fourth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1922. Pp. 4, 5.

was authorized to issue bonds up to three times its caiptal stock or one and one half billion dollars.[19]

With the scope of its activity thus broadened the corporation entered upon the third great phase of its activities and proceeded to make plans for financing directly the dealers in farm products thruout the country. In the agricultural and livestock centers Agricultural Loan agencies were established. They consisted of bankers and local citizens who served without compensation. Their function was to pass on loan applications and make recommendations to the corporation before its final action. Thirty three of these agencies were created. Each was authorized to establish headquarters and employ a full-time secretary. Information circulars and application forms were sent to these agencies and a managing director visited each headquarters and explained to the committee the purposes and methods of the corporation.[20] The coöperation of State Bankers' Associations proved very helpful in this work. By Nov. 30, 1921, just a little over three months after the act had been amended, 824 applications had been sent in and approved. These involved loans of more than 42 million dollars.[21]

While the new amendment authorized loans direct to dealers it did not provide for loans direct to

[19] 42 U. S. Stat. at L. Pp. 181–5.

[20] Fourth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1922. Pp. 7, 8.

[21] *Ibid.*, p. 9.

farmers. They were assisted indirectly however by the credit and encouragement given to coöperative societies and local banks. For example a Corn Belt advisory committee was formed to confer with bankers and urge a greater extension of credit to corn producers who had accumulated a large surplus as a result of two bumper crops in succession. The chairman of this committee was Warren T. McCray, at that time Governor of Indiana, now editor of a paper published in the federal penitentiary at Atlanta.

The policy of the corporation in all its loans was to extend credit where this would assist in the holding of stocks for orderly marketing, but not for speculative purposes. Of course the line between holding for orderly marketing and holding for speculative purposes is not easily drawn. It involves considerable personal judgment and here again the coöperation of the local bankers was most helpful.

The demand for credit was exceedingly heavy during November and December of 1921 and January and February of 1922. During these four months loans averaged over 2 million dollars a day. After this the applications declined somewhat but the great need for this type of credit may be judged from the total amount of loans approved up to Nov. 30, 1922. In this period of thirteen months the corporation approved advances in thirty seven

states totaling $433,447,000.[22] Of the loans made to banks, eighty three per cent. were made to state banks,[23] usually not members of the Federal Reserve system. This furnished them a rediscount market similar to that enjoyed by the national banks.

The effect of these advances on the general prosperity was very great. A single advance to a bank might enable that bank to extend additional credit to a hundred individual farmers whose notes it had rediscounted. It is estimated that three quarters of a million farmers also benefited directly through advances made by the corporation to coöperative marketing associations.[24]

The continued demand for this type of agricultural credit during 1921 and 1922 so clearly demonstrated its usefulness that a permanent system was devised to continue these functions which the War Finance Corporation was temporarily exercising.[25] This permanent system was provided for in the Agricultural Credits Act of 1923, which created twelve Federal Intermediate Credit Banks.[26] The function of these banks is to furnish permanently the intermediate type of agricultural credit which the War Finance Corporation furnished temporarily. Their

[22] Fifth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1922. P. 1.

[23] *Ibid.*, p. 5.

[24] *Ibid.*, pp. 8, 9.

[25] Sixth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1923. P. 3.

[26] 42 U. S. Stat. at L. Pp. 1454–1482.

creation therefore paved the way for the termination of the War Finance Corporation. The corporation was authorized however to continue to operate until the new banks became firmly established. It continued actively in the same field throughout 1923, and on Feb. 20, 1924, Congress extended its active existence up to Jan. 1, 1925.[27] The corporation is also authorized to renew advances up to three years from the date of the original loan. It will in all probability continue its existence, therefore, until 1928 and the complete liquidation of its affairs may require an even longer time.

On Nov. 30, 1924, with just one month remaining in which the corporation might make new loans, the total advances made for agricultural and livestock purposes under authority of the act of Aug. 24, 1921, were approximately equal to the total advances made under the war powers of the corporation. If to the agricultural and livestock loans we add the export loans which were authorized in 1919 we find that the War Finance Corporation, organized as a war agency, has handled a larger volume of business under its peace-time authority than under its war powers. The following table shows the total advances made under each grant of authority and the amounts still outstanding on Nov. 30, 1924.[28]

[27] 43 U. S. Stat. at L. Pp. 14–15.

[28] Seventh Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1925. Exhibit D. P. 20.

	Amounts advanced	Balance outstanding Nov. 30, 1924
Advances under war powers of the corporation	$306,756,020.76	$16,975,187.02
Advances for export purposes	85,001,194.09	None outstanding
Advances for agricultural and livestock purposes	297,933,939.38	45,647,676.54
Total	$689,691,154.23	$62,622,863.56

These totals, enormous as they are, very inadequately portray the services performed by the War Finance Corporation. Three hundred million dollars advanced to essential industries during the war conveys very little meaning unless viewed with a proper appreciation of the intricate relation of these industries to all other industries, to the general well-being of the people, and to the successful prosecution of the war. Eighty five million dollars advanced for export purposes means very little until one visualizes a great coöperative marketing association, assisted in disposing of its season's cotton, enabled thereby to pay dividends to its thousands of members, who in turn are able to discharge their debts, take up their bank notes, and pass on their prosperity through a hundred different channels. Three hundred million dollars advanced for agri-

cultural and livestock purposes assumes a new significance when we contemplate a catastrophe such as recently occurred in Sioux City, Iowa, where the failure of a few large banks endangered the credit of hundreds of correspondent banks and threatened the ruin of thousands of depositors in several states.[29] This is typical of many similar situations. In all the corporation assisted 4,317 banking and financial institutions by its advances for agricultural and livestock purposes.[30]

The assets of the corporation on Nov. 30, 1924, were approximately 562 million dollars.[31] Deducting the original capital stock of 500 million, of which 499 million was retired and canceled Jan. 5, 1925,[32] there remains a net profit of 62 million dollars. This is sufficient to cover a reasonable interest charge on the money advanced by the Treasury for its capital stock. Therefore all the assistance, direct and indirect, which it rendered to the country, is pure economic gain. This record clearly demonstrates that a government owned corporation is a feasible and practical instrumentality for extending the credit of the government to any essential industry which will promote the public welfare either in war or in peace. As a permanent insti-

[29] *Ibid.*, pp. 2–3.
[30] *Ibid.*, p. 5.
[31] *Ibid.*, p. 21.
[32] Eighth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1926. Pp 1.

tution however an organization such as the Federal Intermediate Credit Banks[33] which are government owned corporations designed to serve one particular purpose, is perhaps capable of developing greater efficiency because of its more highly specialized functions.

[33] Cf. *infra*, ch.VIII.

CHAPTER VI

UNITED STATES HOUSING CORPORATION

When a great nation makes war on a modern scale the industrial difficulties involved are often more complicated than those problems directly associated with the administration of the army and navy. As a matter of fact industrial problems and military problems are now so closely related that it is difficult to separate them even for purposes of classification. Our own experience in the recent war quickly demonstrated the interdependence of forces which appear wholely unrelated. For example, the success of our armies depended on the quality of their equipment. The quality of their equipment depended on the efficiency of the factories which produced it. The efficiency of these factories depended on the welfare of the employees, and the welfare of the employees was dependent on proper living conditions. Thus it came about that the success of our armies in France was endangered by such remote factors as a housing shortage in Vallejo, Cal., or a lack of transportation facilities in Norfolk County, Va.

Immediately upon our entrance into the World War there began a great expansion of industry,

especially of those industries directly supplying war necessities. Large contracts were let by the government in every manufacturing center. Established industries were speeded up and wherever possible new plants were built to increase the output still further. While millions of dollars were being spent for expensive machinery and new factories in which to house it, little or no provision was made for housing the workers who were to operate the machinery. Consequently the problem of housing congestion, which had been serious before the war,[1] suddenly became acute, and the government was brought face to face with a by-product of industrial expansion on which it had not counted. Most of the war contracts were placed in manufacturing and industrial centers where a nucleus of skilled labor already existed. In these centers the government originally made no attempt whatever to provide housing facilities. In those cases where it was necessary to establish powder factories or other dangerous industries in isolated districts where no towns existed the government did make provision for housing the men in dormitories. In neither of these situations were the results satisfactory. In the industrial centers the margin of available housing was quickly exhausted and in the isolated districts the efficiency of the laborers, compelled to

[1] Department of Labor, Bureau of Labor Statistics. Monthly Labor Review. Government Printing Office, Washington, May, 1919. P. 29.

live apart from their families, decreased rapidly. The turnover became so great, ranging from 200 to 300 per cent. a year, that it seriously menaced the carrying out of government contracts.[2]

This situation was first brought to light by one of the subdivisions of the Council of National Defense. This council, created by Congress on Aug. 29, 1916, was composed of the Secretaries of War, Navy, Interior, Agriculture, Commerce, and Labor.[3] In October, 1916, an Advisory Commission was appointed by the President to assist this council. The commission was composed of seven civilians, each a leader in some field of industry. The function of the council was to coördinate the industries of the country and to create relations which would make possible the immediate concentration of the resources of the nation in time of need.

Samuel Gompers was appointed as an authority on labor. He called together a representative committee on Apr. 2, 1917, and subcommittees were then organized to deal with various phases of the labor problem. A Section on Housing was formed under the subcommittee on welfare work. A chairman for this section was not found until May 3, 1917, when Mr. Gompers appointed Philip Hiss to the position.

[2] Report of the United States Housing Corporation. Dec. 3, 1918. Government Printing Office, Washington, 1919. P. 11.

[3] 39 U. S. Stat. at L. Pp. 649–650.

Mr. Hiss immediately began an investigation of housing conditions throughout the country. He visited all the important industrial centers, gathering information and forming the nucleus of a future organization. In August a housing questionnaire was sent to over two hundred cities in an effort to gather definite data on the needs of various districts.[4] The replies revealed extremely serious conditions in the districts around Philadelphia, Washington, Newport News, Va., and Bridgeport, Conn.; and a rapidly increasing congestion at Akron, Cleveland, and Portsmouth, Ohio; at Alton, Peoria, and Rock Island, Ill.; at Davenport, Ia.; New Brunswick, N. J.; and Bethlehem, Pa.[5]

The following report, made by C. Grant La Farge, gives a picture of conditions in Alton, Ill.

Everything habitable pressed into service. There is one bad slum called "Dog Town," just east of glass company, in bottom land and subject to flood, . . . Last year a smallpox epidemic broke out in the slums and because of the congestion spread rapidly and was controlled with difficulty; there were 1,000 cases. The slum conditions are a constant menace and a disgrace. Housing shortage declared itself five years ago and began to be acute two years ago; . . . Congestion cases quoted—house suitable for 10 to 15 has 64; five-room house has 26 men in it, sleeping in three shifts; East Third Street, 3 and 4 families are living

[4] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, p. 10.
[5] *Ibid.*, p. 11.

per single house; Cherry Avenue, in a 12 room house there are 12 families, similar conditions in other sections.[6]

On August thirtieth an informal conference of housing, town-planning, and architectural experts was held to discuss the situation revealed by the questionnaire. It quickly became apparent that private builders were unable to cope with the situation and that only the government could finance the necessary building program. The conditions existing in Bridgeport, Conn., are illustrative of the difficulties involved. Nearly all the Bridgeport industries were engaged in war work. Its existing plants had been enlarged, unused plants had been reconditioned, and new plants had been constructed. Its payroll was increasing by many thousands of dollars each week. Housing construction had practically ceased at the outbreak of the European war. The city had become so seriously congested that the health of the inhabitants was in danger. Insanitary houses and dwellings formerly uninhabited were forced into use and filled to overflowing. Rents increased enormously but accommodations were still unavailable. Private homes and public rooming houses placed three and four beds in a room and rented them out in eight-hour shifts. Still the supply could not keep pace with the demand. In spite of this situation the government, hard pressed for munitions, erected a machine plant in the city

[6] *Ibid.*, p. 4.

at a cost of several millions, to which it planned to let cost-plus contracts. It was evident that only the cost-plus plant would be able to pay wages sufficient to keep up with the rising rents, that labor would be drawn from the other plants, and that the government would simply be bidding against itself.

This situation was set forth in detail in a report submitted by the Housing Section to the Welfare Committee which met in Washington on Sept. 21, 1917. The seriousness of the problem was so apparent that it was immediately laid before the Council of National Defense. The council, on the recommendation of the Advisory Commission, appointed a committee to investigate further the problem and if necessary to suggest a remedy. Otto M. Eidlitz was appointed chairman of this committee and hearings were conducted during the latter half of October. In its report the committee stated:

(a) "That lack of housing facilities is sufficiently extensive to menace the quick production of ships and war materials."

(b) "That the relation to the war program is direct."

(c) "The financial aid for house construction should be afforded by the Federal Government and a proper administrative agency should be created." [7]

Congress was not in session at this time however and it was not until three months later, on Feb.

[7] *Ibid.*, p. 12.

7, 1918, that a bill was introduced in that body authorizing the Secretary of Labor to expend 50 million dollars for "housing, local transportation, and other general community facilities" for industrial workers employed on army and navy contracts. In anticipation of the passage of this bill the Secretary of Labor organized a Bureau of Industrial Housing and Transportation in his department. Mr. Eidlitz was appointed Director of this bureau. The bill did not become a law however until May 16, 1918. The authority which it had proposed to confer on the Secretary of Labor was entrusted to the President. An expenditure of 60 million dollars was authorized with the provision that 10 million of this amount must be expended in the District of Columbia.[8] A similar appropriation of 50 million dollars had been made previously on Mar. 1, 1918, to be expended under the direction of the United States Shipping Board Emergency Fleet Corporation for the housing of shipyard workers.[9] The act of May 16, 1918, authorized the President to provide housing for war needs, but the appropriation for carrying out its provisions was not made until June 4, 1918.[10] Two weeks later the President issued an Executive Order delegating his authority under the acts of May 16th and June 4th to the Secretary of Labor.[11] On July 8th Con-

[8] 40 U. S. Stat. at L. Pp. 550–3.
[9] *Ibid.*, pp. 438–9.
[10] *Ibid.*, pp. 594–5.
[11] Executive Order 2889.

gress increased the appropriation from 60 to 100 million dollars.[12]

The original act authorized the President to "exercise any power or discretion herein granted," . . . "through such agency or agencies as he may create or designate" . . . , and the act of June 4th contained the further provision that the President "if in his judgment such action is deemed necessary or advantageous, may authorize the creation of a corporation" for carrying out the purposes of the act. Accordingly the Secretary of Labor, on the same day that Congress increased the appropriation to 100 million dollars, organized the United States Housing Corporation and incorporated it in the state of New York. It was not until July 25, 1918, just three and a half months before the signing of the armistice that the funds appropriated actually became available for use by the corporation. This must constantly be kept in mind in judging the work of the corporation.

The initial activities of the United States Housing Corporation were greatly facilitated by the Bureau of Industrial Housing which had been organized five months previously under the Department of Labor. This bureau was responsible for the creation of the corporation and its directors became the officers of the new organization and served thereafter in a dual capacity. Continuity of policy was thus assured and the corporation pro-

[12] 40 U. S. Stat. at L. P. 821.

ceeded to carry out the plans which had been formulated by the bureau.

After considerable difficulty the bureau had adopted the general policy of government construction. Two other methods were suggested by which the government might promote housing operations. The first consisted of "Supervised Government Loans, through local financial institutions, to individuals, operative builders, and corporations." This plan was opposed largely because of the delay and difficulty involved in dealing with thousands of different individuals and organizations. It was believed to be not only slow but costly as it permitted none of the economies of large-scale mass production. The second proposed method consisted of "Federal Loans to a single representative local housing corporation to be formed and to operate under the direction of the Housing Bureau." This was finally abandoned, because of the difficulties involved in forming the local corporations. The policy of direct government construction and operation of houses was formally adopted by the bureau at the order of the Secretary of Labor on June 13, 1918.[13]

There was also some difference of opinion as to what general policy the bureau should adopt with reference to a permanent or temporary type of building. It was deemed inadvisable to house the

[13] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, pp. 17–23.

men in barracks like soldiers, as their indoor occupation did not produce sufficient hardihood for this type of living, and in addition the draft had lowered the average resistance by removing many of the physically fit. Dormitories could be used for unmarried men if they were built with individual sleeping rooms, and common recreation rooms where the men might recuperate after the day's work. For this type of housing it was agreed that temporary construction was both practical and economical. Accommodations for skilled workers who were married were more difficult to provide. These workers were accustomed to a higher standard of living and demanded comfortable houses for themselves and their families. If these were unobtainable they quickly gave up their positions and moved elsewhere. There was not entire agreement on whether this type of housing should be permanent or temporary. The arguments in favor of temporary construction were that it could be quickly provided, was relatively inexpensive, and would serve satisfactorily during the probable duration of the war. On the other hand it was known that temporary structures deteriorated rapidly, unless carefully built, of the best material, on secure foundations. It was further pointed out that the emergency structures which had been erected in Galveston after the flood and in San Francisco after the earthquake, though intended for temporary use only, had in many cases become the permanent

homes of the poorer classes. The districts where these "shack towns" remained quickly became centers of vice and contagion. There was the additional factor that in the North the severity of the winters required expensive heating systems and careful weather-proofing even in temporary structures so that the saving was relatively small. This saving was further reduced by the greater salvage value of permanent buildings. For these reasons the bureau at length agreed on the policy of erecting permanent buildings wherever it appeared that there would be a need for them after the war. Elsewhere temporary construction was used.[14]

Having determined upon this policy the next step was the selection of the standards to be followed in building these permanent family houses. As local architects were to be employed standards were essential, first, to provide for the health, safety, and comfort of the occupants, and second, to permit the economic use of materials and labor. A manual was prepared by the Housing Bureau which specified the standards which would be acceptable for basements, closets, furniture space, lighting, cooking, materials, fences, gardens, open spaces, porches, rear entrances, stairs, roof, air space, ventilation, plumbing, number of rooms, arrangement, and windows. Some of these requirements are highly illuminating and indicative of the rapidly rising living standards of the American workman.

[14] *Ibid.*, pp. 16–17.

The following extracts will serve to illustrate:

Closets. Every bedroom to have a clothes closet, opening from the room. Built-in wardrobe dressers will not be accepted. Normally such closets to be not less than 22 inches deep and with door. Closets to be supplied with rods to take coat hangers.

Ventilation. Every room to have at least one window opening directly to the outer air. Two windows in each room generally preferred;—cross ventilation as direct as possible to be provided for all rooms thru windows, transoms, or doors; . . .

Lighting. Electricity preferred.

Open spaces. Side-yard space between adjacent buildings to be preferably 20 feet; minimum, 16 feet;—Rear-yard depth not to be less than height of building, nor in any case less than 20 feet. Minimum distance between backs of houses to be 50 feet. Consideration to be given as to whether sites should be provided for garages.[15]

The foregoing are examples of general standards applied to all types of houses. More specific and detailed standards were provided for each particular type of house. These standards were published accompanied by the statement that they were not intended as inflexible requirements, but that any plans which failed to conform to them were not likely

[15] Department of Labor. Bureau of Industrial Housing and Transportation. Standards Recommended for Permanent Industrial Housing Developments. March, 1918.

to be accepted unless supported by very strong reasons. Later experience amply proved their worth, tho deviations and substitutions were often necessary because of the requirements of the War Industries Board, whose function it was to allot supplies where they were most essential.

In the months preceding the appropriation by Congress which made it possible to begin actual construction, the Bureau of Industrial Housing sought to relieve the situation by utilizing to the fullest extent the housing facilities already in existence. For this purpose the bureau organized a Homes Registration and Information Division. This division then proceeded to put into operation what was known as a saturation program. The first step in this program was the making of a vacancy canvass. This was carried out under the auspices of a local committee made up of representatives of the Council of National Defense, the chamber of commerce, manufacturers, bankers, real estate boards, civic organizations, the Y. M. and Y. W. C. A., and similar organizations interested in war workers and having a knowledge of local housing conditions. The actual canvass was usually made by the women's committee of the Council of National Defense, but sometimes by school teachers, or by volunteers secured through advertising and public mass meetings. Those volunteering to make real estate men, soldiers, the police, the Red Cross, the canvass were supplied with investigation cards

prepared by the Housing Bureau and were carefully instructed by field agents sent out by the Homes Registration Division. This canvass enabled the bureau to list every vacant house or apartment in the city and every room which was available for renting. The cards also indicated the type, size, equipment, quality, and price of each house or room. A local placement bureau was then organized with an office in some centrally located part of the city easily accessible to incoming workers. Here the information cards were kept on file and were so classified that workers could be quickly directed to the type of dwelling and location which best suited their needs. Thus the maximum use was made of the available facilities in each community and the Housing Bureau was able to determine accurately where the greatest need for new construction existed.[16]

With all this information at hand, and with plans and policies worked out in advance, it was possible to begin building operations immediately after the Congressional appropriation became available. For this purpose, as previously stated, the Department of Labor organized the United States Housing Corporation. It was believed that the buying and selling and the contractual relations involved in carrying out an enormous building program could be handled more expeditiously and conveniently by

[16] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, pp. 27–28.

a corporation than by a bureau. Accordingly the director of the Housing Bureau was appointed president of the corporation, the assistant director became its vice-president, the general manager of the bureau was appointed secretary, and the treasurer of the bureau became the treasurer of the corporation. A board of seven directors was formed, later increased to nine, and a certificate of incorporation was taken out in the state of New York. This certificate, after describing in broad terms the purposes of the corporation, states: that the number of shares which may be issued by the corporation is one thousand, without par value; that its principal business office is to be located in New York City; that its duration is perpetual; that the directors need not be stockholders; and that they may hold meetings outside the state of New York. It further states that 998 shares of the stock are subscribed by William B. Wilson, Secretary of Labor, and one share each by Otto M. Eidlitz and George G. Box.[17] The corporation was controlled therefore by exactly the same persons who had controlled the bureau, namely, the president of the corporation, Otto M. Eidlitz, acting at the direction of the Secretary of Labor, the corporation's chief stockholder, whose authority in turn was delegated by his superior officer, the President of the United States.

The new corporation took over the entire ad-

[17] *Ibid.*, p. 59.

ministrative machinery built up by the Housing Bureau and made only such subsequent modifications as were justified by changed conditions. On Nov. 1, 1918, the work of the corporation was distributed among thirteen major divisions, designated as follows: fiscal, industrial relations, legal, homes registration and information, survey and statistics, operating, architectural, engineering, construction, requirements, real estate and commandeering, transportation, and town planning. The names of these divisions indicate in a general way the nature and scope of their work. Some of them are of sufficient interest to justify a more detailed treatment.

As soon as it had been determined that housing construction should be undertaken in a given district the real estate division sent two scouts to the city to make a preliminary estimate of the value of available vacant land. This information was collected before prospective sales had increased values, and was used as a check on prices asked later. Upon the completion of this work, which required from one to four days, a committee on sites was sent in to make a detailed study of the situation. This committee, consisting of a realtor, an engineer, an architect, and a town planner, carried on its work openly and in full coöperation with the citizens of the community. The realtor studied the cost of sites, their accessibility to factories, and the type of house needed with relation to its fu-

ture sales value. The architect considered the prevailing type of architecture, the preferences of the workers, and the cost and availability of building materials. The engineer investigated the cost of extending water, sewerage, gas, and electric systems to the projected site. The town planner worked out the most efficient arrangement of streets, blocks, open spaces, and civic centers.

The committee devised a unique method for determining the value of the sites under consideration. On the basis of the local tax assessments and the record of all recent sales, the mayor, the tax assessor, the chamber of commerce, the board of trade, the Rotary Club, and the real estate board, were asked to appraise the land. The real estate division then made an official appraisement based on these local estimates, the tax lists, and the reports of the real estate scouts. This combined appraisement avoided personal bias and gave a reasonably accurate consensus of opinion as to the actual value of the property.[18] It also enlisted community support and coöperation and proved a protection in later transactions. To illustrate, the corporation began negotiations for the purchase of a large hotel in a New England town. Local appraisements were made and ranged from $85,000 to $110,000. Then it was officially appraised by the real estate division at $90,000. The owners of the property however demanded $150,000, a price so exorbitant

[18] *Ibid.*, p. 136.

that the whole project was abandoned. The people of the city were greatly disappointed at the outcome but because of the community appraisals no blame was placed upon the corporation.[19]

The actual purchase of property was handled by a negotiator. He was instructed to arrange for the purchase at a price not above the official appraisal. His recommendations were submitted to the president of the corporation and if approved the legal details of the transfer were placed in the hands of a local attorney. In those instances where purchase would entail unusual delay the corporation resorted to requisition. It was the general policy of the corporation however to acquire its land by negotiation whenever this was possible. In all the Housing Corporation purchased real estate in 47 cities at a total cost of approximately 5 million dollars. In addition over one million dollars' worth of property was requisitioned. Altogether there were 988 contracts and 124 requisitions.[20]

While the land was being purchased the detailed plans for each project were worked out by a committee of designers. This committee consisted normally of an architect, an engineer, and a town planner, thus closely resembling the sites committee. These designers were employed by contract for a fixed sum plus certain expenses specified and approved by the corporation. Before beginning work

[19] *Ibid.*, p. 36.
[20] *Ibid.*, p. 37.

each committee was called to Washington for instruction in the details of the project and the methods of the corporation. Each member of the committee was made responsible for those phases of the work related to his own professional specialty and as a group they were responsible for the proper execution of the whole plan.

The corporation made a practice of employing architects living in the vicinity of the projects whenever the experience and responsibility of these men were adequate to guarantee the efficient execution of the work. The margin of profit allowed these architects was far below what they were accustomed and entitled to receive, amounting to about three per cent. as compared with a usual fifteen per cent.,[21] but this sacrifice was accepted as a personal contribution toward the successful prosecution of the war. Each architect was allowed several assistants, the number ranging from two to twenty four depending on the size of the project. The total force engaged in this work was about 450. The projects varied in size from those designed for only 10 families to those providing for 2,000 families. Altogether plans were drawn for the housing of 21,000 families and 23,000 single workers.[22]

As soon as the plans were drawn a list of available contractors within a reasonable radius of the

[21] *Ibid.*, p. 212.

[22] Report of the United States Housing Corporation. Government Printing Office, Washington, 1919. Vol. 2, p. 386.

project was prepared. Questionnaires were sent to all those who were interested and confidential investigations were made of their ability and financial standing. Plans and specifications were then sent to those whose records were the most satisfactory and the contracts were awarded on the basis of the bids which they submitted. As a rule the lowest bid was accepted. In all more than 700 contractors submitted bids on the various projects. As the congressional act authorizing government housing construction prohibited cost-plus-percentage contracts, the Housing Corporation prepared a contract fixing remuneration on the basis of cost, plus a stipulated fee and a fixed rental for equipment used. Many of the contracts also contained a penalty and a bonus clause.[23]

The procurement of materials for the individual contractor constituted in itself no inconsiderable problem and required constant coöperation with other departments of the government. Priority shipments were secured by special arrangement with the United States Railroad Administration and the War Industries Board. The construction division of the army was often called upon to make purchases for the corporation. When time could be saved local materials were purchased even at an increased cost. About 30 million dollars' worth of materials had been ordered at the time of the armistice. During the latter part of October carload ship-

[23] *Ibid.*, vol. 1, pp. 202–3.

ments averaged 2,000 per week and purchases a million dollars a day.[24]

The construction work of the corporation was much hampered by its inability to maintain a sufficient supply or an efficient quality of labor. Coming late into the field it found most of the workers already employed in other war industries. Laborers were not only difficult to secure but hard to hold. The corporation faced constant competition with the Emergency Fleet Corporation and other government construction agencies. An industrial relations division was established to deal with this and associated problems. The policy of this division was to coöperate with the United States Employment Service and to prevent, wherever possible, the drawing of labor from other essential industries. Contractors were required to submit lists of the number and class of workers required together with the date when they would be needed. They were warned not to ask for an over-supply of workers in the expectation that the lists would be cut down, as it was the policy of the division to make every effort to secure the exact number requested on the date specified. One contractor violated these instructions and asked for twenty painters before he needed them. The division brought the painters all the way from Kansas to Maryland only to find that they were not wanted for two or three weeks. The men were sent back to Kansas

[24] *Ibid.*, p. 41.

and the contractor was compelled to pay the transportation costs both ways together with food, lodging, and regular wages for the time lost. The publicity given to this incident had a salutary effect on other contractors.[25] In spite of all difficulties the projects were about fifty per cent. manned by November first.

The sudden termination of the war caused a complete change in the corporation's plans. For four months its program had been expanding constantly. The first contract for construction work was let on July eighth, the day the corporation was organized. Sixty such contracts had been awarded when the armistice was signed on November eleventh and twenty three others were about to be awarded. Fifty four of the projects were immediately abandoned, fifteen were modified, and twenty two were continued as originally planned. Of the thirty seven projects on which work was to proceed three were transferred to the war department for disposal in connection with the powder plants for which they were built, two were subsequently canceled, and four were of minor importance. The twenty eight major projects which were completed were located at the following places:[26]

Aberdeen, Md.
Alliance, O.
Bath, Me.
Bremerton, Wash.
Bridgeport, Conn.
Charleston, W. Va.

[25] *Ibid.*, pp. 223–5.
[26] *Ibid.*, p. 211.

Davenport, Ia.
Erie, Pa.
Hammond, Ind.
Indianhead, Md.
Mare Island, Vallejo, Cal.
Moline (and East Moline), Ill.
New Brunswick, N. J.
New London (and Groton), Conn.
Newport, R. I.
Niagara Falls, N. Y.
Niles, O.
Norfolk, Va.
Philadelphia, Pa.
Quincy, Mass.
Rock Island, Ill.
Seven Pines, Va.
Washington, D. C.
Dormitories for navy yard
Hotels for government clerks
Waterbury, Conn.
Watertown, N. Y.

Work on these projects was pushed rapidly. The peak of production was reached on Dec. 1, 1918, when the contractors were employing 19,369 men.[27] The original plans called for construction sufficient to house approximately 150,000 persons. The modified plans following the armistice provided for only 40,000.[28]

Housing construction was completed on a majority of the projects about May 31, 1919, and on nearly all of them by the last of June. Street paving, sidewalks, planting, and seeding were not completed until fall. As soon as the houses were ready for occupancy new problems arose. Should the corporation attempt to sell or rent this property?

[27] *Ibid.*, p. 211.

[28] Report of the United States Housing Corporation. Government Printing Office, Washington, 1919. Vol. 2, p. 393.

If it decided to sell should the price be based on the cost of construction? If the houses were rented by what means should a fair rental be determined? Should the rents be standardized? Should the houses be rented to other than government workers? These and other problems called for immediate decision. Several serious difficulties stood in the way of the selling plan. First, the projects were not finished. Roads were not graded, paving was not laid, sidewalks were not completed, and shrubbery had not been planted. Second, economic conditions were unsettled and business interests were uncertain of the future. Third, the value of the individual units of each project was not very definitely known. All these factors militated against the success of an immediate sale policy. While they also interfered to some extent with a rental policy the complications were less serious so that in the end this was the plan adopted.

In determining the rent to be charged the following considerations were taken into account. The houses had been constructed to meet a war emergency. They had been built by the government because private capital would not finance the investment. The necessity for speed, inefficient labor, and materials purchased at war prices had increased their cost far beyond their peace time value. To this extent the government had subsidized their construction. It was apparent therefore that the rental would be exorbitant if based on construction cost.

On the other hand the corporation did not wish to fix the rents at a figure which would discourage private building and lower the future sales value of its own property. Accordingly rents were fixed on the basis of a reasonable return on the estimated post-war value of the property. Much criticism was aroused by this action and numerous protests were received from persons who believed the rents should be lower. Subsequent appraisals however seem to show that the rents fixed were somewhat less than the average for private houses of similar character.[29]

The collection of rents and the supervision of the completed projects was handled by the operating division of the corporation. A local representative was assigned to each project with such assistants as were necessary. He was responsible for the entire operation of the project, including the supervision of houses, schools, stores, dormitories, hotels, and cafeterias, the collection of rents, and the general care of the property. Altogether the operating division had charge of 5,995 houses and apartments, 64 dormitories, 32 stores, 57 garages, a ferry, and several schools, recreation halls, cafeterias, and hotels.[30] Of the hotels those built by the corporation for the housing of women war workers in Washington, D. C., are perhaps the most

[29] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, p. 47.

[30] *Ibid.*, pp. 215, 284, 289.

interesting. These hotels, or dormitories, were erected to relieve the serious situation which developed when the great influx of war workers completely overtaxed the city's housing facilities. They provided accommodations for 1800 women at a uniform price of $45 per month, which included a room and two good substantial meals a day. Facilities were also provided for social and recreational purposes. The buildings were placed in charge of women managers with business and executive experience. Even though the charges were moderate they produced an income of $4,000 a month above operating expenses.[31]

On July 19, 1919, an act of Congress directed the United States Housing Corporation to sell all its property at a fair market value as soon as this could be advantageously done, and thereafter to wind up its affairs and dissolve.[32] In accordance with these instructions steps were taken to dispose of all property at the earliest practical date. A board of survey was appointed for each project and instructed to examine every unit of property separately and affix a fair market value. The appraisals of these boards ranged from 52 to 73 per cent. of the cost.[33]

When the houses had been appraised they were offered for sale, first to the tenants and then to the

[31] *Ibid.*, pp. 309–310.

[32] 41 U. S. Stat. at L. Pp. 222–225.

[33] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, p. 172.

general public. A partial payment plan was arranged whereby the purchaser might pay ten per cent. down and the balance in installments of one per cent. a month. The title was transferred as soon as the initial payment had been made and the corporation took a mortgage to insure the payment of the remainder. In some districts it was not difficult to induce the tenants to purchase their homes. In others a vigorous educational campaign was necessary to interest them in home ownership. As a result of these efforts the corporation succeeded in disposing of 3½ million dollars' worth of property in less than six months.[34] By the end of 1920 it had sold more than four fifths of its property,[35] and on June 30, 1921, the estimated value of its unsold real estate was less than one million dollars. On the above date it was also estimated that the total amount which would ultimately be returned to the United States Treasury, including the amounts already returned, would be about 70 million dollars. This was exclusive of anticipated income from interest on outstanding loans and rentals from property still in the possession of the corporation.[36] This represents a war loss of less than one third of the 100 million dollars originally appropriated.

Although the greater part of the corporation's

[34] *Ibid.*, p. 181.

[35] Eighth Annual Report of the Secretary of Labor. Government Printing Office, Washington, 1920. P. 156.

[36] Ninth Annual Report of the Secretary of Labor. Government Printing Office, Washington, 1921. P. 21.

property was sold in 1920 and 1921 it will be remembered that much of it was purchased on a partial payment plan of ten per cent. down and one per cent. monthly thereafter. During the last five years one of the chief functions of the corporation has been the collection of these payments. The completion of this task may require the continuance of the corporation for another ten years.

At the present time the corporation is still operating two of its major projects. These are the government hotels in Washington, D. C., and the Norfolk County Ferries. The former are maintained largely because they fill a continuing need for moderate priced living accommodations for women workers in the government departments. Though the prices are very low the corporation has each year realized a profit on the undertaking. In 1922 when the hotels were operating at maximum capacity the receipts were almost a million dollars and the profits over eighty six thousand dollars.[37] These profits however do not take account of interest on the investment, depreciation, or the fact that some of the hotels are built on government land for which the corporation pays no rent. The Norfolk County Ferries were taken over by the Housing Corporation to insure the repayment of a loan made to a private utilities company. These ferries, though an important artery in the transportation system of

[37] Tenth Annual Report of the Secretary of Labor. Government Printing Office, Washington, 1922. P. 36.

the county, were entirely inadequate to handle the war-time population of the district. The corporation therefore loaned the company sufficient money to enlarge its facilities and improve its service. As the company was unable to furnish adequate security it agreed that the corporation should operate the ferries until the loan was repaid. Under the efficient management of the corporation the service has been bettered and the investment made to pay. The corporation points with pride to the constantly increasing profits. In 1922 these profits were nearly $100,000.[38] In 1923 they mounted to $144,000 and in 1924 to $162,000.[39]

While it is approximately correct to speak of the profit made by the corporation on this or that transaction, in a more exact sense the corporation cannot be said to make either a profit or a loss for it is no longer financially autonomous. The act of July 19, 1919, which directed the corporation to liquidate its assets and thereafter to dissolve, forbade the use of any of its receipts for current expenses and directed that its income from all sources be turned into the United States Treasury.[40] Since that date administrative and other expenses have been provided for by annual Congressional appropriations. The corporation has thus lost one of the chief characteristics which commended it as an

[38] *Ibid.*, p. 36.

[39] Twelfth Annual Report of the Secretary of Labor. Government Printing Office, Washington, 1924. P. 47.

[40] 41 U. S. Stat. at L. Pp. 222–225.

efficient agency for carrying on a business function of government. As long as it must look to Congress for annual detailed appropriations it is in the same dependent position as a bureau or a board. The camouflage of a corporate name will in no wise protect it from political pressure.

In seeking to evaluate the work and the achievements of the United States Housing Corporation the following facts should be kept in mind. It was an agency created in the midst of war. It was compelled to function under all the disadvantages which war entails. It was asked to undertake a business enterprise which private capital had found unprofitable. It was expected to construct thousands of buildings at a time when materials were scarce, laborers inefficient, and prices exorbitant. In spite of all these difficulties the corporation, in less than four months from the date of its organization, drew the plans and let most of the contracts for housing 150,000 persons, and, although the armistice intervened and the projects were curtailed, it completed more than 6,000 buildings in the ensuing eight months. These buildings were well constructed and the policy of selling them to tenants on easy terms has been a stabilizing factor in the economic readjustment which followed the war. Though the corporation realized a loss of about one third on its building projects this can hardly be charged to inefficiency in view of the handicaps under which it labored. It is doubtful if any pri-

vate agency, even given the necessary capital, could have done as well. In addition to the foregoing achievements the corporation created a group of construction standards which should be of distinct service in private industrial housing projects of the future. This may be in the end of more far-reaching influence than any other phase of the corporation's work.

CHAPTER VII

UNITED STATES SUGAR EQUALIZATION BOARD

The United States Sugar Equilization Board was the last of our war-born government owned corporations to be created. Like the United States Grain Corporation it was created to deal with one of our great staple foods, but unlike the Grain Corporation it dealt with a food of which we never produce sufficient for our own needs, and for an adequate supply of which we are therefore dependent upon imports from other countries.

Though our sugar consumption was the largest of any country in the world we ranked only eighth in the production of cane sugar and fifth in the production of beet sugar on the basis of a three-year pre-war average. On this same basis India was the largest cane sugar producing country, with Cuba a close second. Then in the following order came Java and Madura, Hawaii, Porto Rico, Brazil, Australia, United States, Mauritius, Philippine Islands, Argentina, Peru, Formosa, and Mexico. It will be noted that every one of these countries was controlled by an allied or neutral power and was therefore open to allied shipping. This would

seem to have assured the Allies and the United States an adequate supply of sugar regardless of the war, but it must be remembered that about half the world's supply of sugar now comes from the sugar beet rather than from the sugar cane, and in the production of beet sugar Germany led the world while her ally, Austria, ranked second. Russia came third but her supply was likewise unavailable to the Allies in the latter part of the war. France ranked fourth but her production was reduced two thirds the first year of the war and was cut fifty per cent. more the second year, due to the fact that her most valuable sugar fields were behind the German lines. Following France came the United States, and then Italy, whose production, like that of France, decreased rapidly as the war advanced.[1] Thus the beet sugar supply was almost entirely cut off from the Allies while much of the cane supply was unavailable for two reasons. First, India, the largest cane producing country, consumes almost her entire crop locally; second, restricted shipping facilities made it almost impossible to import supplies from Australia and the East Indies. These combined factors produced the same difficult situation and serious shortage that existed in the allied wheat supply. The possession of the cane sugar markets did not in any way com-

[1] United States Food Administration. Reference Handbook of Food Statistics in Relation to the War. By R. P. and E. P. Marchett. Government Printing Office, Washington, 1918. Pp. 37–41.

pensate for the loss of the beet sugar produced in Germany and Austria.

Normally the United States is dependent upon Cuba for about one half of its sugar supply. When the Allies were cut off from their German and Austrian supplies they also turned to Cuba. The tonnage constantly required to transport sugar from Cuba to Europe was only one third of that required to ship the same amount from Java.[2] Since the production in Cuba was entirely insufficient to meet this demand we were faced not only with a serious shortage but with a rapidly mounting price due to the competition among the buyers. This was the situation when the United States entered the war in the spring of 1917. The Food Administration established shortly thereafter was faced with the task of finding a solution for what seemed like an insoluble problem.

The policies adopted by the Administration were as follows: first, to control the price and distribution of domestic sugar by voluntary agreement with domestic producers; second, to control manufacturers' and distributers' profits; third, to purchase the Cuban sugar jointly with the Allies; fourth, to reduce consumption, especially in the sweet drink and candy trades; and fifth, to stimulate produc-

[2] Blakey, Roy G. "Sugar Prices and Distribution Under Food Control." The Quarterly Journal of Economics. Vol. XXXII. August, 1918. P. 572.

tion.[3] The creation of the Sugar Equalization Board was not contemplated at this time but was the later outgrowth of changed conditions. The situation in the mean time will be considered first.

The shortage of labor made it almost impossible to increase sugar production materially in the United States. This dependence of industry upon a plentiful supply of labor is especially true in connection with the production of beet sugar. The cultivation of the sugar beet requires an immense amount of hand labor. The planting can be done by machinery but to insure a good stand the seed is planted very thickly in a continuous row. This necessitates blocking the beets. That is, when the beets are about two inches high, blockers, as they are called, go along each row with hoes cutting out about half of the plants. The blocks of plants which remain must then be thinned out by hand so that only the strongest plant in each block is left. This thinning and a later weeding can be done only by crawling along the rows in a most difficult manner on the hands and knees. In the few weeks while this work is in season an average worker will crawl over thirty miles. When the beets are harvested the tops are usually cut off by hand. It is easy to see therefore why it is difficult in times of labor shortage to get this arduous work performed.

[3] Hoover, Herbert. Preface to a Report of the United States Food Administration. April, 1920. P. 30.

The government did succeed in stimulating the industry to the extent of maintaining, in spite of the labor shortage, our pre-war production, but no great increase was possible. In Cuba, where a labor shortage did not exist and where the supply comes from cane, production was greatly stimulated.

There was little that could be done to relieve the sugar situation in the fall of 1917 for the previous crop had been largely exhausted before the Food Administration came into existence. As a result a considerable shortage developed in certain parts of the country. Critics of the Food Administration immediately seized upon this as a point of attack, and attributed the shortage to the price-fixing policies of the Administration. The late Senator Lodge remarked caustically, "The gratitude which they (the people) ought to have felt for the low prices established by the Food Administration did not seem to comfort them when they sat at a table where sugar had become a memory." Again pressing the same point he stated that the situation might be likened to that portrayed by an American humorist who once said that "there was probably nothing more unsatisfying than an unkissed kiss." This shortage of sugar in the New England states was not due, so Mr. Lodge maintained, to an actual shortage in available American supplies but to the interference with natural economic law by the price-fixing regulations of the Food Administration.[4]

[4] Senate Speech, Congressional Record. Feb. 27, 1918. P. 2730.

Plans were immediately made to provide a more equitable distribution of the 1917–18 crop. An international sugar committee on which the Allies were represented by two Englishmen and the Food Administration by three Americans was established on Sept. 21, 1917. The American members, representatives of leading sugar refining companies in the United States, were Mr. Rolph, the manager of the California and Hawaiian Sugar Refining Company; Mr. Babst, the president of the American Sugar Refining Company; and Mr. Jamison, representing the Arbuckle Company.[5] On October first the refiners of the country agreed that the entire purchase of imported raw sugar should be left to this committee. The committee then entered into negotiations with the Royal Commission which was purchasing sugar for the Allies and with the Cuban Commission representing the Cuban producers. On November thirtieth an agreement was reached with the Cuban Commission whereby the Cuban producers agreed to sell to the International Committee practically the entire 1917–18 crop at $4.60 per hundred pounds f. o. b. Cuba. Part of this sugar was then allotted to the Allies through the Royal Commission and part to the refiners in the United States. In the agreements made with the refiners on October first the spread between the cost of the raw sugar and the selling price to the wholesaler was limited to 1.3 cents per pound.

[5] *Ibid.*, p. 2727.

Agreements were also made with the Louisiana cane sugar producers and manufacturers by which the price of their sugar was stabilized. The purchase of the entire Cuban crop by the International Committee at a fixed price, supplemented by the agreements with the Louisiana producers, practically stabilized the price of raw sugar throughout the country, and the further agreements with refiners, wholesalers, and retailers, setting definite margins within which profits must be made, resulted in a stabilized price, varying only by differences in freight, to all consumers in the United States.[6]

To assist in an equitable distribution of the 1917–18 beet sugar crop a beet sugar distributing committee was formed as an agency of the Food Administration to distribute sugar to jobbers on a pro rata basis, and the jobbers in turn were asked to distribute to their customers in the same manner. This supervision not proving strict enough a new plan was adopted which forbade the sale of sugar to wholesalers, retailers, or manufacturers, except upon the presentation of sugar distribution certificates which were issued by the federal food administrator in each state. The government was thus able to determine whether or not any state was receiving more than its just share of sugar, and if so to restrict the issue of certificates.[7]

[6] United States Food Administration. Annual Report for year 1918. Government Printing Office, Washington, 1919. P. 22.
[7] *Ibid.*, p. 30.

Due to changed conditions a different method of handling the 1918–19 crop was found necessary. The cost of producing sugar had increased everywhere but the situation was complicated by the fact that this increased cost was not the same in Cuba and in the United States, and it was not the same in the cane and beet areas even in the United States. The increased expenses of production were much greater in this country than in Cuba and were especially marked in the beet industry where the farmers were demanding almost twice as much for their beets. The United States Tariff Commission in connection with the Food Administration made an investigation of these increased production costs and it was decided that a price of $10 a ton for beets would be sufficient to cover the rising costs and afford some stimulation of production. An agreement was then entered into with the beet sugar manufacturers and the cane sugar producers whereby they agreed that the wholesale price of refined sugar should be standardized and stabilized at 9 cents a pound.[8]

Only the Cuban crop then remained to be dealt with but this presented a serious problem in as much as the cost of production in Cuba was much less than in the United States. It was not desirable to pay the Cuban producer the high price which the cost of labor made necessary for the American producer, yet it was equally objectionable to pur-

[8] *Ibid.*, pp. 22–23.

chase this cheaper sugar and allow it to go on the market at a price which would cause a loss to the producers in this country. It was this situation which caused the creation of the Sugar Equalization Board, a board designed to purchase the Cuban crop at as low a price as was consistent with a reasonable profit to the Cuban producer and to resell this crop in the United States at a price which would not injure the American producer.

The Sugar Equalization Board was formed and incorporated by the Food Administration with the approval of the President. It was not however authorized by executive order as was the case when the Food Administration Grain Corporation was established. The President's consent was given in a letter, dated July 8, 1918, addressed to Herbert Hoover, United States Food Administrator.[9] Though the legality of this method of authorizing the creation of this agency can hardly be questioned, its informality is most surprising. And it is especially strange in view of the fact that a precedent had already been established by the creation under the same administration of the United States Grain Corporation by executive order. The first public notice of the formation of this board was made on July 12, 1918, when it was announced that such a board was in process of formation with the approval

[9] Sixty-sixth Congress, Third Session, House of Representatives. Hearings before Committee on Agriculture on H. J. R. 444. Jan. 18–31, 1921. P. 102.

of the President, and that the Directors were to be Herbert Hoover, chairman; George Rolph president; Professor F. W. Taussig, of the United States Tariff Commission; Theodore F. Whitmarsh, George Zabriskie, of the Food Administration; Clarence Woolley, of the War Trade Board; and William A. Glasgow, Jr., Chief Counsel of the Food Administration.

The purposes of the Board according to this announcement were to equalize the cost of various sugars and secure better distribution.[10] On July 19th the officers of the corporation were formally elected, George M. Rolph as president, Theodore F. Whitmarsh as treasurer, Robert A. Taft as secretary, and Dana F. Ackerly as general manager.[11]

On July 31, 1918, the board was incorporated under the laws of Delaware as the United States Sugar Equalization Board (Inc.) with a capital stock of $5,000,000.[12] This stock was subscribed and paid for in the name of the United States by the President, out of a fund of $50,000,000 which had been previously appropriated by Congress "For the national security and defense, and for each and every purpose connected therewith, to be expended at the discretion of the President. . . ." [13] The

[10] United States Committee on Public Information. Official Bulletin. July 12, 1918. P. 1.

[11] *Ibid.*, July 22, 1918. P. 4.

[12] United States Food Administration. Annual Report for year 1918. Government Printing Office, Washington, 1919. P. 23.

[13] 40 U. S. Stat. at L. P. 635.

certificate of incorporation stated the purposes of the corporation to be as follows:

"To purchase or otherwise acquire, manufacture, sell, or otherwise dispose of, store, handle, and otherwise deal in and with raw and refined cane and beet sugar, sirups and molasses, and other commodities, and to do all acts and things necessary, expedient, or incidental to the efficient conduct of said business within or without the State of Delaware. To exercise all powers which may be delegated to it by the President of the United States. In general, to have and to exercise all the powers conferred by the laws of Delaware upon corporations. . ." [14]

Thru the operation of this Sugar Equalization Board it was possible to establish a moderate basic price for sugar at all refining points in spite of the differences in production costs. Two factors made it possible for the board to establish this uniform basic price. The first was the control of the cane sugar supply which the board secured by purchasing the Cuban crop outright, and the second was the control of our beet sugar supply thru the licensing system. These licenses were issued in the name of the Food Administration but the cooperation between these two agencies was so close that for practical purposes the Sugar Equalization

[14] Agricultural Department and Food Administration. "Memorandum Wheat Price Guaranteed by Congress." Government Printing Office, Washington, 1919. P. 52.

Board may be said to have controlled them. That this basic price might afford sufficient stimulation to production it was found necessary to raise the wholesale price of sugar at all seaboard refining points to 9 cents, an increase of 1½ cents per pound. As a result of this higher price the Louisiana producer received 7.28 cents per pound as against 6.35 cents the previous year, the sugar beet producer received about $2.50 per ton increase for his beets, and the Cuban producer received 5.50 cents per pound as against 4.60 the preceding year.[15]

On Oct. 24, 1918 the Sugar Equalization Board entered into an agreement with the Cuban producers for the purchase of the entire Cuban crop of 1918–19. One third of this crop was allotted to the Royal Commission for distribution among the Allies and the remainder was distributed to American refiners. The Food Control act did not give the Food Administrator power to buy directly such as was given the British Food Controller, nor did it give power to fix prices except that it prohibited exorbitant prices. After the formation of the Sugar Equalization Board however the Administration was able, for all practical purposes, to fix prices, because of its ownership of a large part of the basic supply and its control of the remainder through the licensing system.

Thru this licensing system it controlled not only

[15] United States Food Administration. Annual Report for year 1918. Government Printing Office, Washington 1919. P. 23.

prices but many other practices connected with the trade. For example shippers were forbidden to make shipments in small quantities which inadequately utilized the capacity of the cars. A minimum of 60,000 pounds per car was required unless this exceeded the capacity of the car.[16] To prevent speculation manufacturers were forbidden to make contracts for the sale of sugar unless the sugar was to be shipped within thirty days. Later this limit was shortened to ten days. Exception was made in the case of contracts with federal, state, county, and municipal governments.[17] A maximum of one fourth of one per cent. was fixed on brokerage commissions, and double brokerage, that is, the payment of a second brokerage after one commission had already been paid, was forbidden.[18] The amount of sugar which a farmer might receive in exchange for beets or sugar cane which he had raised was also limited and he was required to sign the following certificate.

"I,—— ——, hereby certify that the cane (beets) delivered by me to the factory of——, at——, were grown by me on my farm; that the amount of sugar to be delivered to me, together with that already on hand, will not give me a supply amounting to more than 30 pounds for each person in my household establishment, and that I will not sell, lend, or deliver

[16] *Ibid.*, Special License Regulations, VI. A. 1, p. 134.
[17] *Ibid.*, Special License Regulations, VI. A. 2 and VI. A. 2, amended, pp. 134, 135.
[18] *Ibid.*, Special License Regulations, VI. A. 4, 5, p. 136.

such sugar to anyone, nor permit such sugar to be used for any purpose except human consumption in my household or establishment." [19]

Many restrictions were placed on manufacturers. To illustrate, the manufacturers of sirups and molasses were required to ship their products in such condition that they would arrive at their point of destination in the United States "sound and sweet and in merchantable condition," it being further provided that this condition would not be considered to have been complied with unless the sirup and molasses met the official Baumè test of the United States Bureau of Standards.[20] This is a good example of constructive coöperation between governmental agencies of widely varying functions.

Refiners were required to operate their plants so as to extract the largest possible amount of refined sugar from the raw product, and were forbidden to produce deliberately sirups and molasses from which sugar could be commercially extracted.[21] Even the size of the package in which sugar might be sold was prescribed. Unless special permission were granted it could be sold only in one, two, five or twenty five pound packages, or still larger sizes.[22]

The foregoing regulations serve to show the extent of the control exercised by the Food Adminis-

[19] *Ibid.*, Special License Regulations, VI. A. 7, p. 138.
[20] *Ibid.*, Special License Regulations, VI. A. 12, p. 137.
[21] *Ibid.*, Special License Regulations, VI. B. 1 and VI. C. 1, pp. 140, 141.
[22] *Ibid.*, Special License Regulations, VI. A. 11, p. 139.

tration over every branch of the sugar trade, first thru its power of licensing the manufacturers, refiners, and larger dealers, and second thru the control of imports exercised by the Sugar Equalization Board.

Since the primary purpose of the Sugar Equalization Board was to equalize the cost of sugar and create a uniform basic price thruout the United States it was necessary for the board to place its Cuban sugar on the market at a price considerably above what it had paid the Cuban producers for the crop. As previously explained this was due to the higher production cost in the United States and the desire to prevent the price dropping to a level which would have discouraged this production. The board was therefore able to realize a substantial profit on this portion of its transactions. The total profits of the board amounted to about 39 million dollars.[23] These came chiefly from the sale of Cuban sugar which the board purchased at 5.5 cents per pound and which was sold at 9 cents wholesale at seaboard points. Out of the difference between these two prices the board paid transportation costs from Cuba and 1.54 cents per pound for refining.[24] Administrative costs were paid out of the margin that remained and the balance was profit.

[23] Sixty-sixth Congress, Third Session, House of Representatives. Hearings before Committee on Agriculture on H. J. R. 444. Jan. 18, 1921. P. 25.

[24] Sixty-sixth Congress, Second Session, House of Representatives. Report No. 506. P. 3.

When the board found it necessary to advance the basic price on Sept. 9, 1918, to cover increased production costs, it was feared that the supplies then held by the refiners and wholesalers would be mixed with the later supplies and sold at the advanced price regardless of their cheaper cost. To prevent this the board purchased all the stocks then in the hands of the wholesalers and refiners and resold them at the advanced price. On this transaction it realized a profit of over 5 million dollars.[25] Tho the public did not directly benefit by this it did so indirectly since the profit went to the government rather than to the trade.

The Food Adminstration's relations to the Sugar Equalization Board ended July 1, 1919, when the Food Administration terminated, but the board remained in existence to carry out its contracts. On July 29, 1919, the Cuban sugar producers sent a written statement to the Sugar Equalization Board in which they offered to sell the board the Cuban crop of 1920 "at a price moderate but compensating to the producer and well within the economic reach of the consumer." The board after considering the proposition sent a letter to the President on Aug. 14, 1919, in which they recommended that negotiations be entered into for the purchase of this crop. One member of the board, Dr. F. W. Taussig, dissented from this recommendation and sent a mem-

[25] Hoover, Herbert. Preface to a Report of the United States Food Administration. April, 1920. P. 30.

orandum to the President recommending that all regulation and restriction of sugar prices cease on Dec. 31, 1919.

No action was taken by the President on the board's recommendation and on September twentieth another communication was sent to him stating that "the time is fast approaching, if it has not arrived, when we will be unable to control the Cuban crop of sugar for the year 1919–20 unless action is taken at once." Again no action was taken by the President and the entire proposal would probably have been dropped had it not been called to the attention of Congress by a resolution introduced by Senator New of Indiana. Hearings were held on this resolution and a bill, known as the McNary bill, was introduced authorizing the President to purchase raw sugar if it could be had at a reasonable price, and to prohibit exportation of sugar and to license the importation, manufacture, storage, sale, and distribution of sugar during the year ending Dec. 31, 1920.[26]

It should be stated that under sections 5 and 10 of the Food Control Act [27] the President still had the power which this bill proposed to confer, but that the Food Control Act contained a clause providing for the termination of this authority at the close of the war with Germany. Since it was not

[26] Sixty-sixth Congress, Second Session, House of Representatives. Report No. 506. Pp. 3–4.

[27] 40 U. S. Stat. at L. Pp. 276–287.

known when the war would be technically terminated this bill proposed to remove any uncertainty by reconferring and extending this power in so far as it related to sugar up to Dec. 31, 1920. This bill passed the Senate but with the provision that neither the President nor the board should longer exercise the licensing or price-control power conferred in the Food Control Act. The bill in this form was very strongly opposed by the Sugar Equalization Board and the chairman of the board sent the following telegram to the House Committee on Agriculture which was then considering the bill:

". . . the United States Sugar Equalization Board is unanimously of the opinion that without the powers of licensing, embargo, and distribution control, its continuation could not serve any useful purpose, and these powers the McNary bill fails to provide. Furthermore the time has gone by when a considerable portion of the 1920 Cuban crop can be purchased at a reasonable price. . . ." [28]

As a result of this recommendation the House Committee reinserted in the bill the clauses which the Senate had stricken out and in this form it became a law on Dec. 31, 1919.[29] It should be noted that while this law was couched in the form of an authorization to the President to purchase the sugar in question, if he found it advisable for the public

[28] Sixty-sixth Congress, Second Session, House of Representatives. Report No. 506. P. 4.
[29] 41 U. S. Stat. at L. P. 386.

good, it was in reality a plain suggestion to the President that it was the proper action for him to take. The suggestion was particularly pointed in view of the President's previous refusal to follow the board's recommendation to purchase the Cuban crop, which recommendation had been twice brought to his attention before the law was passed. Whether the President resented this action by Congress or whether he was influenced by the same reasons that first impelled him to pass over the board's recommendation is not clear. Be that as it may he refused to follow the obvious intention of Congress and allow the Sugar Equalization Board to continue its former policies. Instead he sent word to the board in January, 1920, that he would not exercise the option which the McNary bill gave him of utilizing the services of the board thruout 1920. The board then advised the President that it would proceed to liquidate its affairs whenever this met with his approval and thereafter it had nothing to do with the sugar situation during 1920. This liquidation continued thruout the year and at its close the board declared a dividend of 30 million dollars which was paid into the United States Treasury. This left about 10 million dollars in the possession of the board, which sum was reserved to meet certain liabilities and suits which were pending.[30]

[30] Sixty-sixth Congress, Third Session, House of Representatives. Hearings before Committee on Agriculture on H. J. R. 444. Jan. 18, 1921. P. 25.

During 1920 while the board remained inactive the price of sugar advanced greatly as the board had anticipated. The government decided to utilize the Department of Justice instead of the Sugar Equalization Board to meet this situation. A bureau was organized in this department known as the High Cost of Living Bureau. It was placed in charge of Howard Figg, a special assistant of the Attorney General, and the President authorized the payment of the expenses of this organization out of the funds of the Sugar Equalization Board. This department took the place in some respects of the Food Administration. It carried on a campaign to secure an adequate supply of sugar for the people of the United States and an equitable distribution thereof. Under the authority of the Lever Act it issued to dealers in sugar the licenses formerly issued by the Food Administration.[31]

Out of the activities of this department grew some very peculiar claims against the government. These claims arose as follows. In May, 1920, when the price of sugar had risen to between twenty five and thirty cents a pound, the Department of Justice learned that sugar was selling in the Argentine Republic at about fourteen cents a pound. It conceived the idea of importing this sugar and selling it at cost to the people of the United States. The Argentine government had placed an embargo on the export of sugar but it was believed that it

[31] *Ibid.*, p. 4.

might permit the embargo to be lifted for this particular purpose.

Arrangements were therefore made with the American Trading Company, which had been doing business in the Argentine for many years, to purchase this sugar. They were assured that the United States government would arrange with the Argentine authorities for permission to export the sugar and that the Department of Justice would be responsible for its distribution when it reached the United States. The department then asked B. H. Howell, Son and Company to act as its distributing agent in this country. After some hesitation this firm agreed and in coöperation with the American Trading Company opened up a credit for this transaction in the Argentine. No compensation was arranged for these services it being understood that the companies would leave this to the discretion of the government, which later decided that one cent per pound for each company was equitable. A letter was then sent to the American Trading Company asking them to purchase sugar up to the amount of sixty thousand tons. Upon receipt of this letter the American Trading Company proceeded with the purchase of sugar and had secured about fourteen thousand tons when they learned that no permit had been granted by the Argentine government.[32] The purchase of sugar was immediately suspended but several million dollars had

[32] *Ibid.*, pp. 5–6.

already been spent. The Department of State continued negotiations with the Argentine government in an effort to have the embargo lifted, and after about six weeks time did succeed in obtaining a permit for the export of the fourteen thousand tons already purchased. In the meantime however conditions in the United States had altered materially.

News of the government's plan to bring in sugar from the Argentine had spread thruout the country. The newspapers seized upon the information and played it up on the front pages. The public was greeted with big headlines such as, "The United States Government Imports 100,000 Tons of Sugar from the Argentine Republic." Actually only 14,000 tons had been purchased and this did not arrive in the United States until several months later. Nevertheless the psychological effect of the news thus disseminated reacted immediately on the sugar market and the price dropped rapidly.

In the Argentine however news of this transaction caused an opposite reaction and the price of sugar advanced. The American Trading Company then suggested that they resell the sugar in the Argentine, since the object sought in the purchase of the sugar, the breaking of the price in the United States, had already been accomplished. But the State Department would not consent to this as it was felt that it would be abusing the special concession which the Argentine government had made in giving permission to export the sugar.

The sugar was therefore brought to the United States, but the price had by that time declined to such an extent that only about one third of it could be disposed of at cost. Some nine thousand tons remained. The price continued to drop until the loss on this sugar if sold at the market rate would have been about two million dollars. The firms which had undertaken to import and distribute this sugar felt that they should not be asked to bear this loss. Tho they had no legal contract with the government to protect them they contended that they had acted only as agents of the government, that they had been asked by the Department of Justice to undertake the transaction, and that the loss occurred thru no fault of their own, but thru the failure of the government to obtain for them at the proper time the export permit which had been promised. They maintained that these facts and circumstances constituted a moral if not a legal claim against the government and that the government ought to be responsible for the loss.

The officials in the Department of Justice and the Department of State had much sympathy with this point of view and it was proposed that the President authorize the Sugar Equalization Board to take over the entire transaction and stand any loss out of the surplus which had accumulated in its treasury. It should be remembered that up to this time the Sugar Equalization Board had had not the slightest connection with this affair. When the board had

received word the preceding January that the President would not utilize its services further it immediately became inactive and thruout the year maintained only a small office force to carry out the liquidation of its affairs.

The McNary bill had authorized the President to utilize the services of the board up to Jan. 1, 1921, and the proposal that the board take over the above transaction was made in December, 1920.[33] A few days still remained therefore in which the President might ask the board to undertake new work. It was not entirely clear however whether or not he would be legally justified in asking them to take over a claim with which they had previously had no connection and which could result only in a loss to be paid out of their treasury. The officers of the board likewise felt some hesitation in assuming a liability for which they were in no way responsible and which would detract to some extent from their record for business efficiency in the accumulation of a large surplus. While they felt that a moral claim existed against the government they did not wish to assume this liability without Congressional sanction.

Accordingly a joint resolution was introduced in Congress authorizing the President to require the United States Sugar Equalization Board to take

[33] Sixty-sixth Congress, Third Session. Senate Hearing before Committee on Agriculture and Forestry on S. J. Res. 238. Jan. 15, 1921. P. 15.

over and dispose of this sugar. The House Committee on Agriculture reported favorably on this resolution on Feb. 1, 1921, tho four of the members filed a minority report against it on the ground that it contained no more merit than many other moral claims which arose out of the war and its aftermath and which the government was unable to pay.[34] Tho the majority report of this committee was favorable the resolution had not become a law when the Sixty sixth Congress ended shortly thereafter.

In the spring of 1921 a similar resolution, almost identical in wording, was introduced in the Sixty seventh Congress and hearings were again held.[35] In these hearings it developed that another firm, P. De Ronde & Co. (Inc.), had also been asked by the Department of Justice to participate in the shipment and distribution of sugar from the Argentine. This company had likewise been unable to dispose of all its sugar and maintained that it had the same moral claim against the government as did the American Trading Company and B. H. Howell, Son & Company. A resolution was therefore introduced to require the Sugar Equalization Board to take over this transaction also. This session like the preceding one closed with no final

[34] Sixty-sixth Congress, Third Session, House of Representatives. Report No. 1276 to accompany H. J. Res. 444. Feb. 1, 1921.

[35] Sixty-seventh Congress, First Session. Senate Hearings before Committee on Agriculture and Forestry on S. J. Res. 12. May 10–24, 1921.

action on the resolutions and again the claims were pressed in the next session. It was not however until the closing session of the Sixty seventh Congress in February, 1923, that the resolutions were finally passed.[36] The latter or De Ronde resolution became a law without the Presidential signature on Feb. 12, 1923. Both resolutions authorized the President to require the Sugar Equalization Board to take over these claims and pay the actual loss sustained by each company. Tho these losses were not sufficiently large to deplete seriously the treasury of the board and tho they did not come at a time when the board was actively utilizing its capital the assumption of this unwelcome liability furnishes a very illuminating example of the outside pressure that may be brought to bear upon a supposedly independent and financially autonomous corporation.

This action by Congress in 1923 further delayed the final liquidation of the Sugar Equalization Board and is to some extent responsible for the board's continued existence to the present time. When all the claims have been settled and the liquidation completed it is probable that a further dividend will be declared and that all the capital stock will be purchased at par and cancelled, the proceeds going into the Treasury of the United States.

[36] 42 U. S. Stat. at L. Pp. 1224–5. Approved Feb. 9, 1923. 42 U. S. Stat. at L. P. 1226. Became law Feb. 12, 1923.

In summarizing the work of the Sugar Equalization Board it is difficult to estimate with any degree of accuracy the financial saving to the people of the United States for which the board is responsible. The reason for this difficulty lies in the fact that, although we know the price at which sugar sold during the board's active life, we have no way of knowing what that price would have been had the board not been in existence. Furthermore we cannot say how much the price of sugar was depressed by the exercise of the Food Administration's licensing power and how much the depression was due to the purchase of the Cuban supply by the Sugar Equalization Board. We only know that through the combination and coöperation of these two agencies the price of sugar was kept at a moderate level at a time when most other prices were fluctuating or soaring rapidly. And we further know that following the board's cessation of active work the price of sugar rose out of all proportion to the shortage which existed.

It is fair to conclude therefore that the forty million dollar surplus which the board accumulated was only a small proportion of the amount saved to the people of the United States by the repression of prices for which the board and the Food Administration were responsible. Since the people of the United States consumed over 15 billion pounds of sugar during the two years of sugar control,

every cent reduction per pound meant a saving of 150 million dollars.[37]

One further point should be noted in connection with the board and that is the volume of business conducted in comparison with the size of its capital. It is indeed remarkable that with a capital of only 5 million dollars it was able to purchase a crop of sugar worth about 500 million dollars and accumulate a surplus of some 40 million dollars in the space of one year. Of course there were monopolistic and price-control factors working in its favor which should be taken into consideration but likewise there were losses, as on the Louisiana cane sugar, which were voluntarily assumed for the public good.

Weighing all the factors it is perhaps not an overstatement to say that the work of the board was conducted with high efficiency, administrative skill, and excellent results, and that it may be regarded as an altogether successful example of the usefulness and possibilities of a government owned corporation.

[37] Hoover, Herbert. *Op. cit.*, p. 31.

CHAPTER VIII

FEDERAL INTERMEDIATE CREDIT BANKS

The Federal Intermediate Credit Banks have been in existence only about three years. They were created to supplement a banking system which inadequately provided for what is known as intermediate credit. This is a type of credit extending over a longer period than does ordinary commercial credit but over a shorter period than the long time loans of the Federal Land Banks. Since we had no system of banks particularly designed to care for this credit, those engaged in such businesses as the livestock industry, where returns are unavailable for from nine months to two years, were often hard pressed to obtain capital for legitimate needs. Shortly after the war, when credit everywhere began to contract, this pressure became so great that it seriously threatened large business interests in whole sections of the country. To relieve this situation the War Finance Corporation was authorized in 1921 to extend credit to dealers in live stock and agricultural products.[1] In a period of thirteen months, ending Nov. 30, 1922, advances totaling nearly half a billion dollars were approved

[1] 42 U. S. Stat. at L. Pp. 181–5.

by the corporation.[2] This great demand so clearly demonstrated the need for this type of credit that a permanent system was devised which would continue to furnish this service after the War Finance Corporation went out of existence.[3]

The legal foundation for this system is provided by the Agricultural Credits Act of 1923.[4] This act authorizes the Federal Farm Loan Board to grant charters to twelve institutions to be known as Federal Intermediate Credit Banks. The banks are to be located in the same cities as the twelve Federal Land Banks and the officers of the latter are to be *ex officio* officers of the former. The banks are to have usual corporate powers to sue and be sued, and for purposes of jurisdiction each bank is to be deemed a citizen of the state where it is located.

The capital stock of each bank is fixed at 5 million dollars and is subscribed by the United States. Half of the net earnings are to go to the United States and half into a surplus fund until this fund equals one hundred per cent. of the capital stock and thereafter ten per cent. of the earnings are to be added to the surplus and ninety per cent. paid to the United States as a franchise tax. Any sur-

[2] Fifth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1922. P. 1.

[3] Sixth Annual Report of the War Finance Corporation. Government Printing Office, Washington, 1923. P. 3.

[4] 42 U. S. Stat. at L. Pp. 1454–1482.

plus after dissolution and liquidation is to go to the United States.

The act further provides that each Intermediate Credit Bank shall be liable for the debentures and interest thereon of every other Intermediate Credit Bank and requires the Board of Directors of each bank to so obligate the bank and duly record this in its minutes. Subject to certain limitations the paper of the Intermediate Credit Banks may be rediscounted by the Federal Reserve Banks. The Federal Farm Loan Board is required to examine and audit the accounts of the banks at least once each year and make a public report of their condition.

The privilege of tax exemption is granted to the banks, including exemption of their capital stock and surplus and the income derived therefrom. Any debentures which the banks may issue are to be deemed instrumentalities of government and be likewise exempt.

It will be seen from the foregoing provisions that the banks are a type of corporation different from any previously existing agency. They are citizens of the state in which they are located yet as instrumentalities of government they are tax exempt. Their stock is owned by the national government yet like the Federal Reserve Banks they pay the United States government a franchise tax. As creatures of the federal government they are subject to any restrictions Congress

cares to impose, yet their directors are instructed to take independent action to obligate the banks on one specific matter. Whereas in previous banking corporations the government has been only a temporary or minority stockholder, in these banks the government is to remain permanently the only stockholder. The operation of these banks has not yet extended over a sufficient length of time to justify definite conclusions as to the wisdom or unwisdom of creating this type of banking corporation. Three years' experience is sufficient however to be at least suggestive.

The act creating the Federal Intermediate Credit Banks was approved on Mar. 4, 1923. Two days later a conference of the presidents of the twelve Federal Land Banks was held for the purpose of organizing the new banks. Two million of the five million dollars authorized as the capital of each bank was called in and the remainder left in the United States Treasury for emergency. Additional working capital was secured by the sale during the year of $30,500,000 worth of debentures. The interest rate on these was 4½ per cent. The rediscount rate charged by the bank was 5½ per cent.

By using the facilities of the Federal Land Banks the new banks were able to establish themselves quickly. By the end of 1923 their loans and discounts totaled over 42 million dollars.[5] The ex-

[5] Federal Farm Loan Board. Seventh Annual Report. House of Representatives, Doc. No. 196. Sixty eighth Congress, First Session. Government Printing Office, Washington, 1924. P. 4.

perience of the banks thus far seems to indicate that in certain sections of the country there is little call for this type of credit while in other sections there is a strong and growing demand. This need is most noticeable in the livestock districts.

The act does not allow the banks to make loans direct to individuals. It is therefore necessary for the borrower to join a coöperative association or seek the loan through some local financial institution willing to act as an intermediary. For this reason the banks have encouraged and assisted in the formation of coöperative associations wherever possible. For example they have aided wool growers to establish a coöperative marketing association to which loans can be made.[6]

In an effort to improve the quality and increase the value of securities offered, the banks have also encouraged improved agricultural methods. In districts where single crop farming was customary they have financed the introduction of dairy herds, thus furnishing the facilities for a steady income even during crop shortages. As dairy returns are distributed over the year a monthly payment plan has been devised for the systematic liquidation of these advances.[7]

The Federal Intermediate Credit Banks have experienced no difficulty in securing sufficient capital for their needs through the sale of their debentures.

[6] *Ibid.*, p. 7.
[7] *Ibid.*, p. 6.

For this purpose, in common with the Federal Land Banks, they have utilized the services of a fiscal agency, which was established in Washington on July 1, 1923. This agency, previously mentioned in the chapter on Federal Land Banks, was established to coördinate the activities of the various federal banks in the preparation and marketing of their bonds and securities. By keeping in touch with distributing centers and observing the demand for this type of security the agency has been able to advise as to the proper time for offering bonds and the amounts in which they should be issued. The agency has also been able to so correlate the activities of the banks that those temporarily in need of funds have been supplied by those having a surplus. In addition it has enabled the banks to make considerable savings by the purchase of their own bonds when these have occasionally dropped below par. Up to Dec. 31, 1924, the agency had disposed of Intermediate Credit Bank securities totaling 117 million dollars. The only expense involved was for advertising, which amounted to less than eight thousand dollars. It is estimated that the activities of the fiscal agency, in the eighteen months prior to Jan. 1, 1925, resulted in a saving to the two classes of banks of at least $223,000.[8]

Though the history of the Federal Intermediate

[8] Federal Farm Loan Board. Eighth Annual Report, House of Representatives, Doc. No. 619. Sixty-eighth Congress, Second Session. Government Printing Office, Washington, 1925. Pp. 8–9.

Credit Banks has been brief they have already assisted in the marketing of most of the important crops of the country. Mention has been made of their assistance in the livestock industry, especially in rediscounting cattle paper, but this is no longer their biggest field of activity. The cattle loans outstanding at the end of 1924 totaled less than 8 million dollars while loans to coöperative associations of tobacco growers were over 20 million dollars and those to cotton associations more than 13 million. The third largest amount for the financing of a single crop was a loan of 4 million dollars to a coöperative association of raisin growers in California. Next in order came wheat with loans totaling less than 3 million and then prunes with a total of 1½ million. Smaller loans were made to assist in marketing wool, canned fruit and vegetables, rice, peanuts, broom corn, and olive oil.[9]

In all the Federal Intermediate Credit Banks have loaned over 312 million dollars of which 80 million was outstanding on Dec. 31, 1925. These loans are distributed over forty one states and range in size from 16 hundred dollars in Michigan to 49 million dollars in Kentucky.[10] They assist in marketing crops as varied as the peanuts of the Carolinas and the wheat of the Dakotas. Tho 1924 was the first full year of operation every bank made a profit. The bank of Omaha showed the smallest profit with

[9] *Ibid.*, Appendix 7, 8, pp. 18–20.

[10] Federal Farm Loan Board. Ninth Annual Report. Government Printing Office, Washington, 1926. Pp. 24–25.

earnings of only $2,076.83, while the bank in Louisville ranked highest with net earnings of $164,890.03. The total net earnings for the twelve banks were $1,056,626.56 in 1924 and $1,017,179.73 in 1925.[11] This represents a return on the capital invested of nearly 4½ per cent. It is a strong indication that the banks are established on a sound economic basis and are filling a real need in our credit system.

[11] *Ibid.*, Appendix 8–A, p. 27.

CHAPTER IX

INLAND WATERWAYS CORPORATION

The Inland Waterways Corporation is the youngest of our government owned corporations. It was created on June 3, 1924. Sufficient time therefore has not yet elapsed to justify a critical analysis of either its present accomplishments or its future possibilities. We shall however be in a better position to appreciate its further development if we have some knowledge of the steps which led to its creation. For this reason an account will be given of those agencies, functioning in the same field, which were the forerunners of the present corporation.

We must go back then to the Council of National Defense, established in 1916. One of the functions of this council, as stated in the act creating it, was "to supervise and direct investigations and make recommendations . . . as to the utilization of waterways" for the purpose of making the resources of the nation more available in time of need.[1] In compliance with these instructions the council, on June 15, 1917, appointed a Committee on Inland Water Transportation, with Maj. Gen. W. M. Black, then Chief of Engineers, United States

[1] 39 U. S. Stat. at L. Pp. 649–50.

Army, as its chairman. The committee immediately began an investigation of the feasibility of utilizing our inland waterways to relieve the increasing war-time congestion on our railroads. It first sought information as to the number of carriers which were available for this service, their location, type, tonnage, and condition. It then sought to determine what factors were interfering with the maximum utilization of this tonnage and what steps should be taken to insure a permanent fleet of commercially useful vessels on these waterways. After investigating the Mississippi, Ohio, Tennessee, Warrior, and minor rivers, the New York Barge Canal, the Delaware and Raritan Canal, the Schuylkill and Lehigh Canals, the Chesapeake and Delaware and Dismal Swamp Canals, the intracoastal waters and portions of the tributary rivers on the Atlantic seaboard from New York south to Beaufort, North Carolina, the committee concluded that, with proper terminal facilities and efficient management, much of the freight then moving by rail could be profitably moved by water.[2] It therefore conducted propaganda among shippers urging them to investigate the possibilities of water transportation, sought to enlist the support of private agencies in developing this field, and recommended government action in initiating certain services. As a result of these recommendations the United States

[2] War Department. Annual Report 1920. Government Printing Office, Washington, 1921. Vol. 1, p. 1650.

Shipping Board allotted about 4 million dollars from the funds of the Emergency Fleet Corporation for the construction of twenty four steel barges and four steel towboats to be used in transporting iron and steel on the Mississippi River between St. Louis and St. Paul. It was estimated that this one improvement would permanently release some five hundred freight cars previously employed in this service.[3] Although in this instance the committee was able to obtain direct government action it was usually compelled to rely on public opinion and private initiative to carry out its suggestions. When the United States Railroad Administration was formed to take over the transportation systems of the country it operated under no such limitations. It was therefore decided to increase the scope and authority of the Committee on Inland Water Transportation by merging it with the Railroad Administration. Accordingly the committee, as an agent of the Council of National Defense, was dissolved on Feb. 15, 1918, and its activities transferred to the Committee on Inland Waterways established by the Director General of Railroads. Maj. Gen. W. M. Black, chairman of the former committee, was retained as chairman of the new organization.

This committee was instructed "to make a prompt investigation and to report as soon as practical a definite plan describing the extent to which and the

[3] *Ibid.*, p. 1651.

manner in which additional use may be made of the internal waterways for the economical and expeditious movement of traffic of the country so as to relieve or supplement the railroads under existing war conditions." [4] On Mar. 12, 1918, the committee submitted a report recommending that immediate action be taken by the government to acquire by purchase or rental the isolated and poorly organized services then in existence on our inland waterways and to supplement these by such additional equipment as might be necessary to establish an efficient and unified system of water transportation. In its detailed recommendations three projects were selected the development of which was considered of major importance. These were the New York Barge Canal, the Lower Mississippi River, and the Warrior River. The traffic situation on these three waterways may be briefly described as follows.

The New York Barge Canal was a development of the famous Erie Canal, at one time the most important waterway in the country. For many years it was the leading artery between the East and the West. With the advent of the railroad however its importance began to decline. Its maximum development was reached in 1872. Ten years later its revenues were insufficient to pay the cost of maintenance and at no time since have they been adequate to care for the interest and depreciation on

[4] *Ibid.*, p. 1653.

the investment. The principal reason for this decline was the physical inability of the canal as originally constructed to meet modern transportation demands. To relieve this situation the state of New York began to rebuild the canal in 1904. The work required fourteen years and cost 154 million dollars. When finally completed in 1918 a nine-foot channel was available from New York to Buffalo. At that time however no adequate equipment existed for utilizing the enlarged facilities of the canal. Private companies were unable to secure such equipment because of war conditions. The railroad lines paralleling the canal were becoming daily more congested. It was apparent that government action was necessary if relief was to be provided.

Conditions on the lower Mississippi were somewhat analogous. Over a period of many years public transportation facilities had steadily decreased. Thru service by common carrier had ceased altogether. This situation was brought about largely by the discriminatory practices of competing railroads. It was the common practice of these railroads to fix rates on the lines paralleling the river at sixty per cent. of their average rates on other lines.[5] In the days before they came under the control of the Interstate Commerce Commission they even went so far as to change their

[5] Sixty-eighth Congress, First Session, House of Representatives. Report No. 375. P. 8.

rates from day to day and from city to city, putting them at ridiculously low levels from one city to another as long as a boat was in port loading for that destination and raising the same rates perhaps a hundred per cent. as soon as the boat had sailed.[6] Against this type of competition the boat lines were powerless to protect themselves and gradually went out of business. As the industries of the valley developed the railroads became less and less able to handle the increasing traffic. The constantly recurring car shortages caused serious losses in many communities. Several private attempts to revive river transportation failed. Finally in the fall of 1917 traffic conditions became so serious that the St. Louis Chamber of Commerce and the New Orleans Board of Trade took joint action to relieve the situation. They undertook to organize and finance a corporation for the construction of barges and towboats to be operated between the two cities. Representatives were sent to Washington to negotiate priority shipments of construction material. They found however that it was impossible to secure steel for a private corporation not directly connected with war work. Compelled to abandon this plan they then sought the aid of the Railroad Administration and succeeded in inserting in the Federal Control Act the following clause.

[6] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. P. 19.

"From such revolving fund the President may expend such an amount as he may deem necessary or desirable for the utilization and operation of canals, or for the purchase, construction, or utilization and operation of boats, barges, tugs, and other transportation facilities on the inland, canal, and coastwise waterways, and may in the operation and use of such facilities create or employ such agencies and enter into such contracts and agreements as he shall deem in the public interest." [7]

The Federal Control Act, approved Mar. 21, 1918, thus gave specific authority to carry out the recommendations made by the Committee on Inland Waterways on Mar. 12, 1918. The way was therefore open for action not only on the Mississippi River but on the other projects as well.

There were special reasons why the Warrior River system was included among the projects of major importance. The Black Warrior River is a mountain stream forming part of a system of waterways giving access to the coal districts about Birmingham, Alabama. Together with the Tombigbee River into which it flows it furnishes an artery stretching northward from Mobile Bay two thirds of the length of Alabama. Coal has been floated down this waterway since the earliest settlements but for many years the service was intermittent and unsatisfactory because of the unimproved channel and the fluctuating water level. To remedy

[7] 40 U. S. Stat. at L. P. 455.

this situation a series of locks was begun in the seventies and was not completed until 1914. With the opening of the final lock deep-water transportation was possible from the heart of the Alabama coal fields to the Gulf of Mexico. Thereupon two large coal companies undertook to establish a barge line for the purpose of transporting coal from their own and neighboring mines to Mobile and thence to New Orleans. A division of rates was arranged with the railroads connecting with nearby mines. Docks were built and loading facilities installed, but almost before they were completed the railroads repudiated their agreements and fixed prohibitive rates on all lines connecting with the waterway. Nevertheless a barge service was established for the use of such mines as were not dependent on the railroads. The coal was floated down to Mobile where it was transferred to ocean-going barges and shipped to New Orleans. Even this service was maintained with great difficulty because of the discriminatory practices employed by the railroads. According to testimony before the Interstate Commerce Commission the railroads in their efforts to weaken the barge lines fixed rates to Mobile and New Orleans which were less than the cost of the service. Against such competitive methods the water transportation companies had no defense and were gradually forced out of business. When the Railroad Administration was created for the purpose of utilizing the transportation

facilities of the country to the fullest extent it became apparent that this waterway was potentially of great economic value in transporting bunker coal and other products to New Orleans and if properly developed could furnish substantial relief to the congested railroads of the vicinity. Thus the development of the Warrior River project was included with the Lower Mississippi and the New York Barge Canal projects as of major importance in furthering our war program.

To carry out its recommendations the committee asked for an appropriation of 17 million dollars for the purpose of acquiring such existing equipment as was useful and constructing such additional equipment as was needed. In compliance with this request the Director General authorized the commandeering of all serviceable equipment on the New York Barge Canal and the Mississippi and Warrior Rivers, made 12 million dollars available for new equipment, and set up a field organization with headquarters in New York and New Orleans. In the summer of 1918 a need was felt for a more formal organization in Washington to supervise the work of the New York and New Orleans offices and carry out the recommendations of the committee. Therefore a special branch of the Railroad Administration, known as the Division of Inland Waterways, was created on Sept. 5, 1918, and the Committee on Inland Waterways was dissolved.

This division continued to function until Mar. 1, 1920.

During this period of eighteen months the Division of Inland Waterways was concerned chiefly with initiating regular services on the three lines with such equipment as had been commandeered and with providing for the construction of the new equipment which was essential for the efficient operation of these services. For the New York Barge Canal 51 steel barges, 21 concrete barges, and 20 self-propelled steel barges were constructed. For the Mississippi River service 40 steel barges and 6 towboats were built, and for the Warrior River 20 wooden coal barges, 3 steel towboats, and 4 steel self-propelled cargo barges were provided.[8] The concrete barges were constructed under the supervision of the Emergency Fleet Corporation engineers whose services were placed at the disposal of the Inland Waterways Division without charge. A private corporation was employed to supervise the construction of the steel and wooden barges. It was not until 1921 that all of these vessels were completed. In the meantime the lack of carrying facilities caused each line to lose heavily. As new equipment became available the losses gradually decreased. This was the situation when the government decided to abandon federal control of the rail-

[8] Annual Report of Walker D. Hines, Director General of Railroads 1919. Division of Inland Waterways. Government Printing Office, Washington, 1920. Pp. 8, 14, 16.

roads and turn them back to their original owners. The question of the disposition of the new barge lines immediately arose. The railroads could be returned to their former owners but the barge lines as then constituted had never belonged to private companies and much of the equipment had never been in private hands. It was therefore decided to retain these lines under government control for a further period of experimentation and development.

The Transportation Act of 1920, which provided for the termination of federal control, states that all boats, barges, tugs, and other transportation facilities, on the inland, canal, and coastwise waterways, acquired by the United States under the Federal Control Act, are hereby transferred to the Secretary of War, who shall operate such transportation facilities so that the lines established during federal control shall be continued.[9] The general policy of Congress with respect to the development of our inland waterways is expresesd in the same act as follows.

"It is hereby declared to be the policy of Congress to promote, encourage, and develop water transportation, service, and facilities in connection with the commerce of the United States, and to foster and preserve in full vigor both rail and water transportation."

"It shall be the duty of the Secretary of War, with the object of promoting, encouraging, and de-

[9] 41 U. S. Stat. at L. P. 458.

veloping inland waterway transportation facilities in connection with the commerce of the United States, to investigate the appropriate types of boats suitable for different classes of such waterways, to investigate the subject of water terminals . . . ; to advise with committees, cities, and towns regarding the appropriate location of such terminals, and to coöperate with them in the preparation of plans for suitable terminal facilities; to investigate the existing status of water transportation upon the different inland waterways of the country, with a view to determining whether such waterways are being utilized to the extent of their capacity . . . ; and to investigate any other matter that may tend to promote and encourage inland water transportation." [10]

In accordance with the provisions of the above act the Division of Inland Waterways severed its connection with the Railroad Administration and on Mar. 1, 1920 became the Inland and Coastwise Waterways Service under the direction of the Secretary of War. No further change in its status occurred until 1924. During this period of four years it was the aim of those in charge of the service to develop each line to the point where it would be economically self-supporting, so that it could then be disposed of to private interests with the assurance that it would be maintained. Before any of the lines had become self-supporting however it

[10] *Ibid.*, p. 499.

was necessary to discontinue government operations on the New York Barge Canal. This was due to the development of sentiment in New York state opposing further federal activity on a waterway owned entirely by the state. As a result Congress adopted a joint resolution, approved Feb. 27, 1921, amending the Transportation Act of 1920, and withdrawing the authority it had conferred on the Secretary of War to operate barge lines on the New York Barge Canal.[11] The act further provided that at least seventy five per cent. of the government equipment on the canal should be sold but that the remaining twenty five per cent. might be retained for use on other routes. In accordance with this mandate seventy five per cent. of the barges and tugs were offered for sale on Mar. 1, 1921. All of the bids received were unsatisfactory and were rejected. Upon readvertising the vessels an offer of one million dollars, representing about one third of the cost of war-time construction, was received and accepted.[12] The remaining equipment was operated for a short time on an intracoastal route between Baltimore and New Bern, North Carolina, and was then sold to private interests for $400,000.[13]

There remained under the control of the govern-

[11] 41 U. S. Stat. at L. Pp. 1149–50.

[12] Report of the Secretary of War. Government Printing Office, Washington 1921. Pp. 207–8.

[13] Report of the Secretary of War. Government Printing Office, Washington, 1922. P. 317.

ment only the Mississippi and Warrior River lines. These were operated with varying degrees of success from 1920 to 1924. At no time during this interval did the Warrior River line pay expenses, but over considerable periods the Mississippi River service returned a profit. The following table shows the profit and loss on this line for each period of six months from 1920 to 1924.[14]

Year		Jan.–June		July–Dec.
1920	Loss	$291,000	Loss	$304,000
1921	Gain	67,000	Gain	85,000
1922	Gain	300,000	Loss	489,000
1923	Gain	159,000	Loss	200,000

It will be seen from the table that, beginning with 1921, when previously ordered equipment became available, the service operated at a profit during four of the six-month periods and at a loss during only two like periods. These losses occurred in the fall of the year during seasons of extremely low water which necessitated the partial and sometimes complete suspension of traffic over certain portions of the river for many weeks. It is believed that this condition is a temporary one and that improvements in the channel, which the War Department has been carrying on for years, will gradually eliminate it. In the meantime there is

[14] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. P. 33.

constant danger of heavy and unexpected losses. In the latter part of 1922 the Inland and Coastwise Waterways Service was placed in a most embarrassing position by reason of one of these losses. After operating at a profit for eighteen months the service was suddenly paralyzed by a drop in the river level greater than any that had ever been previously recorded. Barges were caught between bars and for days were unable to move in either direction. During the delay the service incurred a loss not only because of its inability to accept new business but also because of its failure to deliver the freight then in its possession. This loss, which amounted to nearly half a million dollars in six months, quickly wiped out all surpluses and left a deficit which the service was unable to meet without selling many of its assets at a sacrifice. Since it had no legal authority to incur a debt or borrow on its credit it was compelled to make a hasty application to Congress for an appropriation. Fortunately this was secured but not until considerable doubt had arisen in the minds of various shippers, as to whether or not the service would be continued, and much business had been lost.[15]

It was to guard against such contingencies in the future that the proposal was brought forward in 1924 to create a government corporation to take the place of the Inland and Coastwise Waterways

[15] *Ibid.*, p. 49.

Service. The plan originated in the War Department and was sponsored by Colonel Ashburn, the administrator directly in charge of the service under the Secretary of War. In favoring a corporate form of organization in preference to the then existing type Colonel Ashburn stressed the following points.[16] First, a corporation with sufficient capital stock would be able to carry both deficits and profits over a period of years without being subject to the hazards of yearly appropriations by Congress. Under the old system a surplus or the unexpended balance of an appropriation automatically reverted to the Treasury at the end of the fiscal year. Second, it would permit the shifting of funds from one enterprise to another as changing circumstances might warrant. Under the usual system of governmental appropriation money can be spent only for the particular item for which it is appropriated even if subsequent developments alter the situation. Third, it would provide a fund for unforeseen emergencies which are frequent in this field of activity. For example, if a tug were destroyed funds would be immediately available for the purchase of a vessel to replace it. Fourth, it would be able to secure additional capital by borrowing if its funds were temporarily unavailable. This situation was very likely to occur for it was the policy of the service to loan money to cities and municipalities for the

[16] *Ibid.*, pp. 103, 105, 52, 152, 49.

construction of terminal facilities. These loans, altho perfectly secure, could be suddenly liquidated only at a loss. Fifth, it would eliminate the supervision of the Comptroller General. The functions of the Comptroller are of necessity administered according to rules and regulations which are adapted to the ordinary type of government activity but which are often unsuited to a business enterprise of an experimental or emergency character. Sixth, it would permit more flexibility in contractual relations. The rules under which government contracts must be drawn are very rigid and are of course designed to protect the public interest. This rigidity however sometimes defeats the very end for which it was intended and proves a detriment to public welfare.

For the foregoing reasons the War Department strongly recommended the formation of a corporate type of agency. Congress acted favorably upon this recommendation and on June 3, 1924, the latest of our government owned corporations was created.[17] This new agency, known as the Inland Waterways Corporation, is authorized by the act to carry on the operations of the Inland and Coastwise Waterways Service "to the point where the system can be transferred to private operation to the best advantage of the government. . . ." The act further states that the corporation is created in the District of Columbia, and that "the incor-

[17] 43 U. S. Stat. at L. Pp. 360–363.

poration shall be held effected upon the enactment of this Act." The Secretary of War is deemed to be the incorporator and is given authority to govern and direct the corporation. The capital stock of 5 million dollars is subscribed entirely by the United States and is payable upon the call of the Secretary of War. The corporation inherits all the property of the Inland and Coastwise Waterways Service and in addition may borrow money for temporary purposes up to twenty five per cent. of its assets. In the operation of transportation and terminal facilities for mercantile purposes the corporation is subject to the provisions of the Interstate Commerce Act, the Shipping Act of 1916, and all other laws, regulations, and liabilities applying to merchant vessels. The act specifically provides that the lines now in operation shall not be discontinued nor new lines initiated unless such action is authorized by Congress. Exception is made of a line on the Mississippi River above St. Louis, which had been previously authorized, and which the Secretary of War is directed to initiate as soon as a suitable channel is available. One other provision of the act is of interest. It creates an Advisory Board of six members to be appointed by the Secretary of War "from individuals prominently identified with commercial, or business interests in territory adjacent to the operations of the corporation." These members are appointed for five-year terms without salary but may receive a per diem

allowance for time spent in the service of the corporation. The function of this board is to consider such matters as the Secretary of War may submit to it and advise and make recommendation as to the operation and management of the facilities of the corporation. In addition to the six members the Secretary of War is directed to appoint a chairman of the board, either a civilian, at a salary not to exceed ten thousand dollars a year, or an army officer, with the rank, pay, and allowances of a brigadier general. Any of the powers vested in the Secretary of War by this act may be delegated to the chairman of the board. These latter provisions make possible a continuity of operation under the same management which directed the former service.

With the removal, by the creation of the foregoing type of corporate agency, of the disabilities under which this service previously operated, it should be possible within a very short time to determine whether or not water transportation can be made a practical and economical adjunct of the steam, electrical, and aerial transportation systems of the country. Advocates of the plan are confident that it can. They point to the fact that already cotton goes from Memphis down the Mississippi River and thence by steamer to New England ports for eleven and a half cents less per hundred pounds than it can be transported by rail. The same city receives salmon from the Columbia River via the

Panama Canal and up the Mississippi cheaper than it can be sent overland by rail.[18] European countries have found water transportation exceedingly profitable. Germany has in use about 8,500 miles of improved waterways, France has 8,600 miles, and even Belgium has over 1,300 miles. Before the war 50 million tons of freight were handled annually on the River Rhine. Twenty five per cent. of all the commerce of France is carried upon her magnificent system of waterways. There are in the United States about 25,000 miles of navigable waterways, and 25,000 additional miles that could probably be made navigable. These waterways if developed will serve forty two states directly and every state indirectly.[19] Five hundred million dollars of public and private money has been invested in the canals and waterways of the United States, yet on all these waters the only common carrier of any importance to the public is the service now operated by the Inland Waterways Corporation.[20] It seems eminently worth while to continue this experiment until it is clearly demonstrated that it can or cannot be made a success. If it is necessary to support the undertaking in its initial stages with public funds we should not begrudge the expenditure. The United States government subsidized the develop-

[18] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. P. 43.

[19] *Ibid.*, p. 126.

[20] *Ibid.*, p. 48.

ment of railroads in this country by grants of territory equivalent to the total area of the original thirteen states, and this is only about half of the territory granted them by cities, counties, and states.[21] The amount necessary to subsidize the Inland Waterways Corporation until it is established on a firm basis is insignificant. The possibilities inherent in the success of the experiment are tremendous. If the corporate form of organization proves of material assistance in achieving this success it will be a significant indication of the potential value of this type of agency in carrying on future government undertakings of a similar character.

[21] *Ibid.*, p. 39.

CHAPTER X

MINOR CORPORATIONS

Although the deliberate and conscious creation of government owned corporations is a development of the last ten years, there are examples of the existence of this type of corporation, for brief periods of time and under peculiar circumstances, at a much earlier date. These earlier examples had no particular relation to or influence on the more recent experiments with this type of agency, yet they furnish an accidental precedent and are therefore worthy of mention.

Strangely enough of the first corporation ever created by the United States, the Bank of North America, was for a time owned largely by the government. Plans for the organization of this bank were begun in 1781, at one of the darkest periods in the history of the Revolution. Continental money had fallen to about one per cent. of its par value and soon became so valueless that Congress was unable to buy sufficient food for the army. In January a large part of the American army mutinied for lack of pay and were dissuaded from returning home only by the personal appeal of General Washington. Face to face with bank-

ruptcy Congress decided to place the finances of the country under one head and on Feb. 20, 1781, elected Robert Morris Superintendent of Finance. On March first the Articles of Confederation were ratified and Congress was given express power to borrow money and pay for the common defense out of the national treasury. At this juncture Alexander Hamilton, always interested in the financial betterment of the country, wrote to Robert Morris urging the advantages of establishing a national bank. Morris was already convinced that such a bank was needed and therefore welcomed the support of Hamilton. He drew up a plan for the bank, though on a less pretentious scale than Hamilton had suggested, and on May 17, 1781, presented it to Congress. This plan called for the establishment of a corporation under the name of the President, Directors, and Company of the Bank of North America. It was to have a capital of $400,000 divided into one thousand shares of $400 each. Its bank notes were to be acceptable for taxes and for the payment of debts between states and the United States. On every evening except Sunday its inspectors were to make a report of the day's business to the Superintendent of Finance.[1]

Opposition to the proposal immediately developed in Congress and, although it was unanimously recommended by a special committee appointed to

[1] Lewis, Lawrence, Jr. *A History of the Bank of North America.* J. B. Lippincott & Co. Philadelphia, 1882. Pp. 24–28.

investigate the proposition, it passed on May 26th by a majority of only one, seven of the thirteen states voting for its adoption.[2] The balance of the year was spent in organizing the bank and receiving subscriptions for the capital stock. The actual incorporating act was passed on Dec. 31, 1781.[3]

Active operations began in the city of Philadelphia on Jan. 7, 1782. There were but six regular employees, the cashier, the teller, the sub-teller, the accountant, the clerk, and the porter. The cashier received the largest salary, $1,000 a year, while the porter received the lowest, $160 a year.[4] When the original plans for this bank were made there was no intention that the government should be the principal stockholder. It so happened however that when the bank was anxiously seeking subscriptions for its capital stock the United States Treasury received a shipment of $470,000 in specie from France. This was deposited in the vaults of the new bank and on behalf of the United States government Morris pledged more than half the sum for the purchase of 633 shares of the bank's stock.[5] The government thus became the owner of more than five eighths of the stock. While this was of some psychological advantage to the bank in that it strengthened the confidence of private investors in the new enterprise it was of little assistance in

[2] *Ibid.*, p. 29.
[3] *Journal of Congress*, Dec. 31, 1781. Vol. vii., pp. 257–8.
[4] Lewis, Lawrence, Jr. *Op. cit.*, p. 39.
[5] *Ibid.*, p. 41.

building up the bank's reserves for within a few months Morris had borrowed for the government much larger sums than the amount of the investment. This was a very profitable arrangement for the government, especially as the dividends on its stock much more than covered the interest on the loans, but other investors objected to the plan and in December, 1782, Morris sold $200,000 of the government stock and with the proceeds paid back part of the amount borrowed. Thereafter the government never controlled a majority of the stock. Its remaining shares were disposed of the following July, principally to capitalists in Holland.[6] Thus ended the first venture of the national government in the stock ownership of a business corporation.

A few years later the government invested in a similar enterprise, the First Bank of the United States, but never to the extent of being a majority stockholder. The bill creating this bank, signed by Washington on Feb. 25, 1791, after many misgivings as to its constitutionality, authorized the President to subscribe 2 million of the 10 million dollars which were to constitute its capital stock. At the same time it authorized a loan to the government of an equal amount thus enabling the government to share in the profits of the bank without in reality investing a single cent. No private investor could subscribe in excess of $400,000. The United

[6] *Ibid.*, p. 48.

States government was thus the largest tho by no means the majority stockholder.[7] When the Second Bank of the United States was established in 1816 with a capital of 35 million the government was again authorized to subscribe twenty per cent. or 7 million dollars.[8] Since the government was only a minority stockholder this bank like the First Bank of the United States must be excluded from the class of government owned corporations.

If we wished to go outside the federal field we could find many examples of states and municipalities investing in the stock of private corporations, occasionally even becoming the majority stockholder. For example the Potomac Company, organized in 1785 for the purpose of opening the Potomac River to navigation, was subsidized largely by the states of Maryland and Virginia. The legislature of each state subscribed fifty shares of stock, one fifth of the total stock proposed, and in addition fifty shares were subscribed and paid for by Virginia on behalf of General Washington, the first president of the corporation, as a testimonial of appreciation for his great services to the country. Washington remained president of the corporation until he became President of the United States and after retiring from federal office he resumed his

[7] Holdsworth, John Thom, and Dewey, Davis R. The First and Second Banks of the United States. Sixty-first Congress, Second Session. Senate Document No. 571. Government Printing Office, Washington, 1910. Pp. 18–19.

[8] *Ibid.*, p. 153.

former interest in the undertaking. Many difficulties were encountered by the promoters of the enterprise. Private capitalists were loath to invest in the new corporation. Frequent applications for financial support were made to the state legislatures. When the project was finally completed in 1801 more than half the capital had been furnished by Maryland and Virginia. Only one dividend was ever paid the stockholders so that as a financial investment the project was almost a total loss. Its public value on the other hand was very great.[9] Many similar examples may be found of states and cities which have purchased stock in corporations but almost always these subscriptions have been made for the purpose of assisting private undertakings of benefit to the public, never with the intention of utilizing them as government administrative agencies or controlling them thru the ownership of their capital stock. Such corporations therefore cannot properly be considered under the classification of government owned corporations.

Returning to the federal field we find no further examples of government owned corporations until comparatively recent times. Shortly after 1900 however a peculiar combination of circumstances resulted in the acquisition by the United States government of a controlling share of the stock of the Pan-

[9] Davis, Joseph Stancliffe. *Essays in the Earlier History of American Corporations.* Harvard University Press, Cambridge, 1917. Vol. 2, pp. 123–136.

ama Railroad Company. This company was organized as a private corporation on Apr. 7, 1849, under the laws of the state of New York. It was incorporated, in the words of its charter, "for the purpose of constructing and maintaining a railroad, . . . across the Isthmus of Panama, in the Republic of New Granada, under the grant made by the said Republic" to the incorporators.[10] Under the terms of this grant the Panama Railroad Company was given the exclusive right to construct a railroad across the isthmus and to operate it for a period of forty nine years, the Republic reserving the right however to redeem the concession for 5 million dollars at the expiration of twenty years, and for lesser amounts at later dates.[11] The railroad was completed and opened from the Atlantic to the Pacific on Jan. 28, 1855.[12] Thereafter it served as the main highway across the isthmus for more than half a century. During this period its history is closely linked with the various attempts which were made to build an interoceanic canal.

The grant made by the Republic of New Granada, later the Republic of Colombia, to the Panama Railroad Company, was modified in 1867 so that it not only gave to the company the exclusive right

[10] *Charter and Amended By-Laws of the Panama Railroad Company.* Slote & James, New York, 1875. P. 3.

[11] *Contract between the Republic of New Granada and the Panama Railroad Company.* John F. Trow, New York, 1856. P. 7.

[12] *Poor's Manual of the Railroads of the United States.* Poor's Railroad Manual Co., New York, 1903. P. 877.

to build and operate a railroad across the isthmus but also protected it against loss due to the competition of any canal which might be built in the vicinity. While the protecting clause did not forbid the building of a canal, it specified that any company receiving the right to build such a canal must indemnify the Panama Railroad Company to the extent of the loss, half the indemnity going to the Republic of Colombia.[13]

The first actual attempt to build a canal was made by The Universal Interoceanic Canal Company, formed in 1879. This organization was backed largely by the French under the leadership of Ferdinand de Lesseps, builder of the Suez Canal. In order to avoid the complications and delay, which he felt would result from an attempt to indemnify the railroad company, M. de Lesseps decided to buy the railroad outright.[14] All the stock of the Panama Railroad Company, with the exception of a few scattered shares, was therefore purchased by The Universal Interoceanic Canal Company for some 93 million dollars.[15]

It is unnecessary to trace here the tragic attempts

[13] *Contract between the United States of Colombia and the Panama Railroad Company.* John F. Trow & Co., New York. 1867. pp. 7–9.

[14] Report of Joseph L. Bristow, Special Panama Railroad Commissioner, to the Secretary of War. Office of Administration Isthmian Canal Affairs. Washington, 1905, p. 10.

[15] Fifty-eighth Congress, Second Session. Senate Doc. No. 222. Report of the Isthmian Canal Commission 1899–1901. Government Printing Office, Washington, 1904. Pp. 204, 210.

of this company to construct the canal, the constantly recurring handicap of unforeseen expenses, the discouragements inherent in a task whose magnitude had not been scientifically determined, and the failure of the project to materialize according to the optimistic prophecies and the faith of its leader. Suffice it to say that in 1889 the company went into the hands of a receiver and in the reorganization that followed, its assets, including its shares in the Panama Railroad Company, were turned over to the New Panama Canal Company, which was formed in 1894. The new company likewise found itself unable to complete the canal within the ten-year period required in its concession and in 1900 secured an extension of six years from the date of the expiration of its rights in 1904.[16] There seemed little hope of the company prosecuting the work to a successful conclusion even with the foregoing extension and negotiations were therefore carried on between the governments of the United States and Colombia with a view to the continuation of the canal by the United States.

The act of June 28, 1902, known as the Spooner Act, authorized the President of the United States "to acquire for and on behalf of the United States, at a cost not exceeding forty millions of dollars," all the rights, privileges, and property of the New Panama Canal Company of France, including all the capital stock of the Panama Railroad Company,

[16] *Ibid.*, pp. 483–4.

owned by said canal company, on condition that a satisfactory title to the foregoing property could be obtained.[17] As the concession granted to the New Panama Canal Company contained a clause prohibiting the transfer of the concession to any foreign government the clear title referred to above could only be otbained by a special act of the Colombian government. A treaty was therefore negotiated with representatives of the Republic of Colombia for the removal of this obstacle. The unexpected refusal of the Colombian government to ratify this treaty and the events which followed are familiar history. On Nov. 4, 1903, a garrison of some two hundred men in the city of Panama, bought it is said with American gold, revolted, the Colombian government sent troops to suppress the insurrection, American naval vessels suddenly arrived in the harbor and prevented the Colombian troops from landing, the state of Panama declared its independence, and two days later this independence was recognized by the United States.[18] Fourteen days after this coup de main a treaty was concluded between a representative of the new republic and our Secretary of State, John Hay, in which the United States guaranteed and agreed to maintain the independence of Panama, and the Republic of Panama granted to the United States in per-

[17] 32 U. S. Stat. at L. P. 481.

[18] Fifty-eighth Congress, Second Session. Senate Doc. No. 95. Government Printing Office, Washington, 1904. Pp. 1–32.

petuity the territory necessary for the construction of a canal across the isthmus. Under the same treaty "The Republic of Panama grants to the United States all rights which it now has or hereafter may acquire to the property of the New Panama Canal Company and the Panama Railroad Company as a result of the transfer of sovereignty from the Republic of Colombia to the Republic of Panama over the Isthmus of Panama and authorizes the New Panama Canal Company to sell and transfer to the United States its rights, privileges, properties and concessions as well as the Panama Railroad and all the shares or part of the shares of that company. . . ." [19] This treaty was ratified on Feb. 26, 1904, and with the way thus opened for obtaining a clear title the government of the United States, in compliance with the terms of the Spooner Act, proceeded to purchase the rights, privileges, and property of the New Panama Canal Company, including its shares in the Panama Railroad Company, for 40 million dollars.[20]

The United States thus obtained title to all the assets of the new Panama Canal Company, including the stock of the Panama Railroad Company,

[19] Sixty-first Congress, Second Session. Senate Doc. No. 357. Treaties, Conventions, etc. 1776–1909. Government Printing Office, Washington, 1910. Vol. 2, p. 1352.

[20] Fifty-eighth Congress, Third Session, House of Representatives. Doc. No. 8. Annual Report of the Secretary of the Treasury on the State of the Finances. Government Printing Office, Washington, 1905. P. 116.

for less than half the amount Ferdinand de Lesseps had paid for the railroad alone twenty five years previously. It should be said in explanation however that the railroad was in very bad condition when it was purchased by the government. Since it had no competitors its French owners had allowed it to deteriorate until it was hopelessly inadequate and out of date. In the report of the chief engineer, made in 1905 shortly after the United States had taken over the railroad, it is stated that conditions were unbelievably bad. For several years even ordinary repairs had been neglected, telephone and telegraph lines were practically out of service and freight movement had almost ceased. The only good thing that anyone could say about the railroad at that time was that no collisions had occurred recently. The American engineer comments on this statement by saying that even a collision has its good points, as it indicates that something is moving.[21]

The control of the foregoing property was placed in the hands of the Isthmian Canal Commission, appointed by the President under the authority of the act of Apr. 28, 1904.[22] The policy to be pursued by this commission with respect to the Panama Rail-

[21] Fifty-ninth Congress, First Session. Senate Doc. No. 127. Annual Report of the Isthmian Canal Commission for year ending Dec. 1, 1905. Government Printing Office, Washington, 1906. Pp. 121–2.

[22] 33 U. S. Stat. at L. P. 429.

road Company is set forth by President Roosevelt in an executive order of May 9, 1904, as follows:

"By virtue of the ownership by the United States of about sixty nine seventieths of the shares of the capital stock of the Panama Railroad the general policy of the managers of said road will be controlled by the United States. As soon as practical I desire that all the members of the Isthmian Canal Commission be elected to the board of directors of the road, and that the policy of the road be completely harmonized with the policy of the Government of making it an adjunct to the construction of the canal, at the same time fulfilling the purpose for which it was constructed as a route of commercial movement across the Isthmus of Panama." [23]

In accordance with the foregoing instructions the management and direction of the Panama Railroad was closely allied with the general control of the canal and the canal zone. The following year the government obtained possession of all the remaining shares of the railroad's capital stock and thus eliminated any possible conflict of public and private interest. The same officials who, as members of the Isthmian Canal Commission, directed the administration of the canal zone, likewise controlled the policy of the railroad thru membership in its board of directors. Under their supervision the railroad was largely rebuilt and put in first-class con-

[23] *Executive Orders Relating to the Panama Canal.* The Panama Canal Press, Mount Hope, C. Z., 1922. P. 25.

dition to serve the interests of both the new canal and the general public.

In 1912 Congress authorized the dissolution of the Isthmian Canal Commission [24] and on Jan. 27, 1914, the President, by executive order, established a permanent organization for the Panama Canal Zone. This order created a Department of Operation and Maintenance and gave it supervision of both the canal and the railroad.[25] Not only are the two systems supervised by the same department, but many of the administrative functions are performed by the same officers. The work of receiving and disbursing funds and the keeping of accounts has been consolidated since 1914 altho a separate record is kept of each fund.[26] So closely knit are the two organizations that employees may be transferred from the railroad to the canal without civil service examination.[27] Employees of the railroad may also participate in the benefits of the United States Employees' Compensation Act, provided that they first release to the railroad any right which they may have under the laws of any state or foreign country to bring a claim against the corporation.[28]

One further change in the railroad's status should

[24] 37 U. S. Stat. at L. P. 561.

[25] *Executive Orders Relating to the Panama Canal.* The Panama Canal Press, Mount Hope, C. Z., 1922. Pp. 155–6.

[26] 38 U. S. Stat. at L. P. 679.

[27] Executive Order 1888. Feb. 2, 1914.

[28] 39 U. S. Stat. at L. P. 750.

be pointed out. Under its contract with the Republic of Colombia the railroad, in return for its concession, paid an annual subsidy of $250,000. On account of the transfer of sovereignty this annual payment was inherited by the Republic of Panama and was then bequeathed to the United States by the treaty of Nov. 18, 1903. After the United States had acquired all the capital stock of the railroad, and had paid off certain obligations for which the subsidy had been pledged in advance, there was no further object in collecting the subsidy, since it was simply deducted from the profits which would automatically accrue to the United States as the sole stockholder. Tho it was merely a matter of bookkeeping Congress recognized the anomaly and in 1910 passed an act relieving the company of further payments.[29]

At the present time the railroad is self-supporting and altho it has paid no dividends since 1905 this is again only a matter of bookkeeping for it has accumulated a surplus of more than 26 million dollars which it charges to profit and loss account and out of which it pays the deficits which occasionally occur.[30] From a financial point of view then we may consider the Panama Railroad Company a decided success. From the standpoint of administrative and operative efficiency its record is also one of

[29] 36 U. S. Stat. at L. P. 772.

[30] *Poor's Manual of Railroads.* Poor's Publishing Co., New York, 1924. P. 478.

achievement. Just how much of its success is due to its administration as a government owned corporation and how much is due to the natural monopoly which it enjoys it is difficult to determine. It is probably fair to say that both have been contributing factors.

The minor corporations which we have thus far treated became government owned largely by accident or in the execution of some major governmental purpose in relation to which the existence and ownership of the corporation was purely incidental. We now turn to a corporation which was deliberately and purposefully organized in its corporate form in the belief that this was the best type of administrative agency for dealing with a particular governmental problem. This corporation was the United States Spruce Production Corporation formed during the war and the problem with which it dealt was the production and distribution of airplane spruce in sufficient quantities to meet the needs of our own and the allied governments. Spruce is the wood par excellence for the manufacture of airplanes because it is the toughest of all soft woods for its weight and possesses tremendous shock absorbing qualities. In addition it does not splinter when struck by bullets or shell fragments. About three hundred fifty pieces of spruce are required for a single airplane.[31] Nearly all the

[31] United States Committee on Public Information. Official Bulletin, Aug. 7, 1918. P. 7.

available supply is on the western coast of the United States and Canada. The supremacy of the air on the European battle front depended largely therefore upon the ability of the United States to speed up production in this essential industry.

The first steps in this direction were taken in May, 1917, when the Aircraft Production Board was appointed by the Council of National Defense. Under the direction of this board the first surveys of the Northwest were made. In October, 1917, Congress created an Aircraft Board to act in an advisory capacity to the Signal Corps, which had charge of land aëronautics, and the Navy, which had control of marine aviation.[32] On Nov. 15, 1917, the Spruce Production Division was organized as a branch of the Aviation Section of the Signal Corps. This is the organization in which we are chiefly interested for out of it grew the United States Spruce Production Corporation. The Spruce Production Division was later separated from the Signal Corps and placed under the Bureau of Aircraft Production, established by Presidential order on May 30, 1918.[33] It was virtually the same organization however, whether it functioned under the Signal Corps, the Bureau of Aircraft Production, or later as the United States Spruce Production Cor-

[32] 40 U. S. Stat. at L. Pp. 296–7.

[33] United States War Department. Annual Report 1918. Government Printing Office, Washington, 1919. Vol. 1, p. 1407.

poration. It is necessary therefore to study the work of the Spruce Production Division and the United States Spruce Production Corporation as a unit.

The Spruce Production Division was a military organization created in accordance with the plans of Brigadier-General Brice P. Disque, who was sent west in October, 1917, with instructions to increase the output of aircraft lumber from 3 million to 10 million feet per month. It soon became apparent that this was a herculean task. The cutting of spruce had never been commercially profitable. It had been produced only as a by-product of fir logging operations. The best spruce areas were therefore undeveloped and not easily accessible. To add to the difficulty spruce trees of a size and quality suitable for airplane manufacture grow widely scattered. A typical spruce area contains only one such tree for every three or four acres. The size of the spruce tree makes its transportation exceedingly difficult. It is the giant of the northwestern forests, towering far above the firs which surround it. The average tree is four feet in diameter but exceptional trees attain a diameter of fifteen feet and a height of two hundred feet. To quote an eloquent admirer—

"Not only is the Sitka spruce a tree of mighty dignity, but also a tree venerable with years, a rival of Methuselah. The coming of war found the human factor in America unprepared, but Nature long

had been preparing America's part in the great struggle. When Columbus set forth on his epoch-making adventure, these giants of the Oregon hills already had reached a vigorous manhood. The Great Charter of Anglo-Saxon liberties was torn from the wretched hands of the pusillanimous John in 1215. But long since, liberty had begun to grow in the spruce forests of a land undreamed of. Some of them at least were contemporaries of William the Conqueror; young and tender sprouts when Harold fell on the historic field of Hastings."

"Such is spruce, the 'ally of the Allies.' To take this giant from the air where he has towered in magnificent immobility for so many generations, to fell him to the ground, to lay him low; and then to sing *Resurgam* over him, to impart lightness, speed, action, in place of his age-long solidness, and to restore him to the skies whence he came—that was the task of the Spruce Production Division." [34]

Before the difficulties of nature could be overcome a problem of human relations had to be solved. This was the problem of creating a labor supply which would be at the same time willing and efficient. When Gen. Disque went west in October, 1917, he found the labor supply not only far below normal, as a result of the draft and the competition of other industries, but also extremely inefficient and

[34] *History of the Spruce Production Division.* United States Army and United States Spruce Production Corporation, 1920. P. 4.

completely dominated by the I. W. W. He immediately asked and received permission to recruit volunteer laborers with logging and sawmill experience from the various army cantonments. By this method approximately 30 thousand men were obtained to supplement the laborers already engaged in this work. The men were uniformed, given a little drill, and then distributed over an area of 25,000 square miles in 234 camps stretching from the Straits of San Juan de Fuca to the northern boundary of California. The soldiers were in most instances assigned to private operators engaged in work on government contracts. They were paid by the operators and received the same wages as civilians similarly employed. This was probably the first time that American soldiers had ever been employed in private industry. It was a radical departure from all army traditions, but it produced results which fully justified the faith of its sponsors. Labor unrest ceased, sabotage disappeared, and agitation became unpopular. The output of airplane spruce immediately began to increase.[35]

With the labor problem on the way to solution the division turned its attention to the natural difficulties involved in its enormous task. The greatest obstacle to be overcome was the inaccessibility of the best spruce areas. Since it had not been commercially profitable before the war to cut and market

[35] *Ibid.*, pp. 15–21.

spruce, except as an adjunct of fir logging operations, many of the spruce forests had never been tapped. Such spruce as was easily available had been felled to meet the demands of the Allies before our entrance into the war. To reach the remoter sources of supply it was necessary first of all to build transportation lines. Surveys were made and plans drawn for the construction of thirteen railroads. Motor highways were then projected to serve as feeders for these main arteries. But the building of railroads and highways is a work of months and in the Western forests it cannot be carried on during the winter season due to the excessive rainfall. It was therefore imperative that some plan be devised for increasing the output of spruce during the winter of 1917. It was decided to resort to riving or splitting the logs where they were felled. This is a wasteful and expensive process as a commercial proposition but it reduces the size of the log to one sixth of its original proportions and it is then possible to haul it out of the forest with teams and load it on motor trucks for transportation to the mill or railroad. As soon as it became known that the Spruce Division was about to employ this method inventive geniuses came forward with mechanical devices for doing the work. Several of these were tried out but it was found that those which were powerful enough to do the riving were too heavy to be transported to the log. It was necessary to bring the log to the machine,

which was the very thing sought to be avoided by the riving policy. As a result the riving was done with "wedges and mauls and perspiration." [36]

In conjunction with the policy of riving a method known as selective logging was adopted. Under this system scouts precede the choppers and mark the desirable trees. These alone are felled. This differs radically from the usual method of cutting every available tree and sweeping the terrain bare. It met with much opposition but proved the salvation of the Allies the following summer for, as a result of the immediate increase in spruce production, they were able to establish an air superiority over the Germans and turn defeat into victory.[37]

When the Spruce Production Division began operations in November, 1917, an output of 10 million feet per month was fixed as its ultimate goal. This goal was reached and passed in the spring of 1918. The division was then notified that the air program had been expanded and that 30 million feet of spruce per month was needed, and that the requirement might go up to 50 million. This meant trippling the 700 per cent. increase already achieved. It meant an enormous expansion all along the line. From a comparatively simple beginning the Spruce Production Division soon became a great industrial organization with functions vast in scope and in-

[36] *Ibid.*, p. 37.
[37] *Ibid.*, pp. 34–7.

tricate in detail. As the commercial phases of its activity grew more freedom from governmental restrictions seemed desirable. The Director of Aircraft Production therefore sought authority to establish a corporation similar to the Emergency Fleet Corporation. Congress gave the necessary approval in the Army Appropriation Act of July 9, 1918. One section of this act authorized the Director of Aircraft Production, when in his judgment it would facilitate the production of aircraft, to form under the laws of the District of Columbia or any state "one or more corporations for the purchase, production, manufacture, and sale of aircraft, aircraft equipment, or materials therefore, and to build, own, and operate railroads in connection therewith." [38] The statute further provides that the total capital stock of the corporation, together with any bonds, notes, or other securities issued by the corporation, shall not exceed 100 million dollars, and that the Director of Aircraft Production, on behalf of the United States, shall subscribe, hold, and vote not less than a majority of the capital stock. The Secretary of War is authorized to transfer to the corporation such property and equipment as is now being used for the production of aircraft material, and he is further empowered to assign officers and enlisted men from the United States army to duty with the corporation. The act specifically states that nothing in the chapter shall

[38] 40 U. S. Stat. at L. P. 883.

prevent the corporation from "employing civilians in the manner customary in the conduct of ordinary business under corporate organization." [39]

Under this liberal grant of authority the Director of Aircraft Production organized the United States Spruce Production Corporation and on Aug. 20, 1918, incorporated it in the state of Washington.[40] Tho the capital stock of this corporation was fixed at 10 million dollars, all of which was subscribed by the United States, a much larger sum was necessary to carry out the new aircraft program. It was planned to raise this additional capital by the sale of the corporation's debentures, these to be distributed among the Allies in proportion to their respective lumber requirements. This was deemed an equitable method of allowing the Allies to participate in the initial capital expenditure involved in the large scale operations of the corporation. Accordingly 25 million dollars of debentures were issued. These were first sold to the United States government at par and then apportioned to Great Britain, France, and Italy.

The property of the Spruce Production Division was transferred to the corporation on Oct. 10, 1918, but the details of the transaction were not entirely completed until the end of the month. It was therefore the first of November before the cor-

[39] *Ibid.*, p. 889.

[40] *A Handbook of Economic Agencies of the War of 1917.* Government Printing Office, Washington, 1919. P. 436.

poration actually began to carry on the work of the division.[41] Eleven days later the armistice was signed and a complete reversal of policy was necessary.

On November twelfth the felling of trees was discontinued on all government property. Production was thus stopped at its source but there remained much material in the process of manufacture and much that was useless for peace purposes. Preparations were immediately made to demobilize both men and material. By the first of the following February the entire division had been mustered out with the exception of the few officers and men necessary to conclude the work of the corporation. To facilitate the liquidation of the corporation's property four boards were created. These were the Contract Board, whose duty it was to handle the cancellation of contracts, the Sales Board, whose task was the supervision of all sales, the Catalog Board, whose function was the compiling of accurate data for the use of the other boards, and the Fire Hazard Board, whose work was the determination and elimination of the fire hazards for which the corporation was responsible.

Of the foregoing units the Sales Board faced perhaps the most difficult problem. On Nov. 11, 1918, the corporation was in possession of some 24 million dollars' worth of property. It was the function of

[41] *History of the Spruce Production Division.* United States Army and United States Spruce Production Corporation, 1920. P. 84.

the Sales Board to dispose of this property in the way that would best conserve the interests of the government. This was no simple task for "the corporation owned everything in the line of lumber from a box of toothpicks to a thirteen thousand acre timber tract. It owned everything in the line of equipment from a stove-bolt to a locomotive. It owned a railroad or so, and it owned a can of tomatoes. It owned a saw-mill or so, and it owned a monkey-wrench. It owned large sections of scenery, and it owned cameras for making pictures thereof. It owned timber in the perpendicular, standing in the forests, and timber in the horizontal, lying in the yards or in the mill-ponds ; . . . and these properties were scattered far and wide, from Coos to Clallam, which geographical designations may be regarded as the Dan and Beersheba of the division operations." [42] In an effort to dispose of this vast array of property as soon as possible an inventory of the major items was made and they were then advertised for immediate sale. With the exception of the sale of the Panama Canal equipment this was the largest sale of government property ever advertised in this country. The results however were disappointing and most of the bids were rejected. It soon became evident that the property could be disposed of quickly only at a great loss. It was therefore decided to reorganize the corporation on

[42] *Ibid.*, p. 97.

a peace basis and continue its existence until its assets could be economically liquidated.

On Dec. 17, 1920, the United States Spruce Production Corporation entered into a contract which will necessitate its continued existence until 1930. Under this contract the corporation transferred a large part of its property to a Delaware company by the name of the Pacific Spruce Corporation. Title to the property however remains in the United States Spruce Production Corporation until the contract is completely executed, which it is estimated will require a period of ten years. As a result of this contract large timber areas and other property, altho under the control of a private corporation, are exempt from all state and local taxation. This has caused a most difficult situation in certain districts in Oregon where the government holdings constitute a large percentage of all the property formerly taxable. In 1923 the legislature of Oregon addressed a joint memorial to the Congress of the United States setting forth this situation and asking for relief. The memorial points out that the United States Spruce Production Corporation in 1918 purchased 13,000 acres of timber land in Lincoln County alone, thereby removing from the tax rolls of this county more than one tenth of all assessable property; that this property is now in the control of the Pacific Spruce Corporation, tho under the contract referred to

above the title will remain in the United States Spruce Production Corporation for ten years; that in the meantime the private corporation is rapidly removing the timber from the land; and that at the expiration of the ten years, when the title passes to the Pacific Spruce Corporation, the valuable part of the property will have been removed and will be forever lost to Lincoln County for taxation purposes. The memorial concludes with the statement that Lincoln County is facing bankruptcy and with the request that Congress consent to the taxation of the property of the United States Spruce Production Corporation on the same basis that other property in the state is taxed, or, if this be illegal, that Congress appropriate each year a sum of money equivalent to the amount of these taxes.[43]

It seems hardly probable that Congress will follow this recommendation as it would involve discrimination against other sections of the country where property of government owned corporations has been tax exempt. In the absence of Congressional legislation Lincoln County, in spite of its serious situation, is helpless, for the courts have held that a state tax, even on the real estate of the United States Spruce Production Corporation, would interfere with its federal functions and is therefore illegal.[44]

[43] General Laws of Oregon, 1923. Pp. 525–6.

[44] United States Spruce Production Corporation *v.* Lincoln County (1922). 285 Fed. Rep. 388.

In evaluating the work of the United States Spruce Production Corporation it should be borne in mind that it began to function only a little more than a month before the signing of the armistice, and that thereafter it was concerned chiefly with the liquidation of its assets. This one month of constructive work was not sufficient to justify any definite conclusions as to the superiority of this type of administrative agency over the type which preceded it. It is significant however that the preceding organization proved inadequate and that as far as it was tested this government owned corporation functioned satisfactorily.

Among the minor government owned corporations one further organization should be mentioned, the Russian Bureau, Inc. This corporation came into existence only a few weeks before the signing of the armistice. Its formation was recommended by the War Trade Board in a memorandum submitted to President Wilson on Oct. 1, 1918.[45]

After the plan had received Presidential sanction the new agency was incorporated in the state of Connecticut under the name of The War Trade Board of the United States Russian Bureau (Inc.). The members of the War Trade Board became the directors of the corporation and the chairman of the board was made president of the corporation.[46]

[45] Report of the War Trade Board. Government Printing Office, Washington, 1920. P. 204.

[46] War Trade Board Journal, No. 16. Government Printing Office Washington, December, 1918. P. 5.

The capital stock of 5 million dollars was furnished entirely by the government and was used as a revolving fund for carrying on the activities of the corporation. The bureau was organized as a corporation primarily for the purpose of purchasing and shipping vitally needed supplies to those portions of Russia in which the Czecho-Slovak troops were operating. Its activities centered chiefly in Siberia tho it also assisted in rationing the Murmansk and Archangel districts and in opening the Black Sea ports to trade. As soon as its incorporation had been completed the bureau negotiated with the War Department for the release of five vessels to be used in transporting supplies to Siberia. It then arranged shipments of material for both the military and the civil population. These shipments included such essentials as clothing, shoes, foodstuffs, machinery, hardware, household goods, and Red Cross equipment. The bureau also arranged for the transportation of a large number of samples of American manufactured products to Siberia and assisted American business by receiving and transmitting orders for these goods to American exporters.[47]

With the signing of the armistice the import and export functions of the bureau immediately ceased and its other activities were brought to a close by the gradual resumption of normal trade relations

[47] Report of the War Trade Board. Government Printing Office, Washington, 1920. Pp. 204–5.

after the war. The active life of the corporation was therefore exceedingly brief. Its inclusion in this study is justified chiefly on the ground that its creation during the closing days of the war is indicative of a general tendency of governmental business enterprises to seek a fuller measure of freedom than was to be found in the stereotyped administrative agencies of the government.

This concludes the list of minor corporations in which the federal government has at one time or another owned at least a majority of the capital stock. In the first of these, the Bank of North America, this ownership was unpremeditated and of brief duration. In the second, the Panama Railroad Company, the stock was acquired deliberately, and with the intention of holding it permanently, that the operation of the railroad might be subordinated to the development of the Panama Canal, but with no thot of creating a new type of administrative agency. In the case of the United States Spruce Production Corporation and the Russian Bureau (Inc.), which are classed as minor corporations only because their active existence covered so short a span, we have clear examples of corporations created for the definite purpose of simplifying and facilitating certain business activities of the government. They are therefore highly significant in a study of the evolution of this type of administrative agency.

CHAPTER XI

ADMINISTRATIVE PROBLEMS

The principal administrative problems connected with any government agency may be grouped conveniently into three classes, financial problems, business problems, and problems of responsibility and control. When the agency is carrying on a business enterprise the problems in the first two categories increase in importance and complexity. It is claimed for the government owned corporation that it facilitates the solution of the financial and business problems of such an agency and that it does not increase the difficulties of responsibility and control. Let us examine these claims.

The usual method of financing a government administrative agency is by a system of annual appropriations. Each year the agency makes an estimate of its probable needs for the coming year. This estimate then runs the gauntlet of the Bureau of the Budget, the committees on appropriations in the House and in the Senate, amendments on the floor of either house, compromises in the conference committee, and final action by both branches of Congress and the President. The appropriation which

finally emerges, often the worse for wear, is a fixed sum divided into specific and detailed classifications. If the appropriation bill indicated only the totals for each general class of expenditures, such as salaries, new equipment, and the like, or specified only those items of major importance, it would be less objectionable, but frequently the bill goes into the greatest detail. For example, the annual appropriation act for the Department of Agriculture for the year ending June 30, 1925, specifies the exact amount which may be expended for the study and eradication of each of six different animal diseases and four plant diseases.[1]

This Congressional custom of fixing the exact amount which may be spent for each particular service does not work such serious hardship upon an old and established or simply organized agency, whose functions are relatively stable year after year, but it proves a most distressing handicap when applied to a new agency attempting to carry on a modern business enterprise of great magnitude. The changes and vicissitudes inherent in such an undertaking preclude accurate estimates of detailed expenditures a year in advance and a surplus or a deficit is almost inevitable. The former is not especially serious except that under the usual system, whereby any surplus at the end of the year automatically reverts to the United States Treasury, there is a great temptation to be extravagant

[1] 43 U. S. Stat. at L. Pp. 437–443.

with any margin which may appear. A deficit, on the other hand, may prove highly disastrous. It necessitates a special appeal to Congress and if that body is not in session it may be necessary to curtail or abandon projects highly advantageous to the government. This contingency is doubly apt to arise if the agency is performing work of an emergency character or functioning under war conditions. The elimination of this danger was one of the primary objects which administrators sought to achieve by the formation of government owned corporations.

These corporations are provided in advance with an amount of money sufficient to insure the uninterrupted prosecution of their work. This initial fund, known as the capital stock, is appropriated in a lump sum. Within certain broad limits the corporation is free to use its own discretion in apportioning and expending this money. It may allot a definite amount for this or that purpose and then, if circumstances change, it may withdraw the money or transfer it to some more essential service. Such action would be impossible under the usual system of government financing since funds appropriated for one object may not be shifted to another even tho the need for the former has ceased to exist or is overshadowed and superseded by the latter. The difficulties which this lack of flexibility sometimes entails are well illustrated by an experience of the Inland and Coastwise Waterways Service before it became a

corporation. The service was desperately in need of terminal facilities for the development of its new transportation lines. An appeal was made to Congress and an appropriation obtained for this purpose. When the service sought to utilize this appropriation it found itself unable to build terminal facilities because there was no provision in the act specifying that land might be purchased on which to erect these facilities. In order to carry out the intention of Congress and protect the interests of the government it was necessary to resort to the round about process of loaning money to the terminal city so that it might buy the land and then lease it to the Inland and Coastwise Waterways Service.[2]

One further important advantage attaches to the corporate system of financing governmental business enterprises. This is the ability of the corporation, in case of great emergency or for other reasons, to increase its available funds even beyond the limits of its capital stock by utilizing its credit. The older type of administrative agency, with a few exceptions, is not allowed to borrow money or pledge its credit even in an emergency. Nearly all of the government owned corporations have at one time or another resorted to this method of increasing their funds, and some have made a con-

[2] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. Pp. 152–3.

stant practice of expanding and contracting their resources by the sale of bonds and debentures. For example, the Federal Intermediate Credit Banks, between July 1, 1923, and Dec. 31, 1924, sold 117 million dollars' worth of debentures.[3] One of the chief reasons for organizing the United States Spruce Production Corporation was to enable it to sell bonds to those foreign governments which were benefited by its output. Twenty five million dollars were secured in this manner.[4] The War Finance Corporation in 1919 sold 200 million dollars' worth of bonds.[5] The United States Grain Corporation holds the record however, its borrowings at one period in 1918 totaling 385 million dollars.[6] This ability of the government owned corporation to expand its resources by utilizing its credit permits a flexibility of administrative policy exceedingly valuable in business enterprises. It puts the government agency, in this respect, on a par with the private business corporation.

Like any other delegation of discretion this relaxation of financial restraint carries with it a danger unless accompanied by increased responsibility on the part of the administrators. Congress has recognized this danger and taken steps to guard against it in the recently authorized corporations by inserting in the creating acts definite limits beyond

[3] Cf. *supra*, ch. viii., p. 5.
[4] Cf. *supra*, ch. x., p. 20.
[5] Cf. *supra*, ch. v., p. 7.
[6] Cf. *supra*, ch. iv., p. 15.

which the borrowing power of the corporation may not be exercised. In the case of the United States Spruce Production Corporation the capital stock was not fixed by Congress but a limit of 100 million dollars was placed on the capital stock together with the bonds, notes, or other securities issued by the corporation.[7] In creating the Inland Waterways Corporation, the latest of these agencies to be authorized by Congress, the borrowing margin was limited to twenty five per cent. of the assets of the corporation.[8] Any uniform standard of debt limitation is probably inadvisable because of the varying functions of different corporations, yet a general policy of fixing some definite limit in each case seems both practical and desirable.

An additional financial advantage urged in favor of the government owned corporation is its freedom from the usual system of government auditing and accounting. It is claimed that the rules and regulations of the Treasury Department have been built up over a period of many years, that they were designed for the old and established type of administrative agency, and that they are unsuited to this new type of organization. Unless prohibited from doing so each corporation has therefore developed its own system of auditing and accounting. Congress however has not always been willing to allow the corporation this freedom. On July 1, 1918,

[7] Cf. *supra,* ch. x., p. 19.
[8] Cf. *supra,* ch. ix., pp. 14–15.

it passed an act directing the Secretary of the Treasury "to cause an audit to be made of the financial transactions of the United States Shipping Board Emergency Fleet Corporation, under such rules and regulations as he shall prescribe." [9] The difficulties which the corporation experienced in attempting to comply with the treasury methods were so great that more than a year elapsed before complete accounts could be rendered.[10] Since a government owned corporation is organized as a corporate entity primarily for the purpose of creating a public administrative agency possessing all the advantages of a private business corporation, it seems only logical to allow it to prescribe its own methods of accounting. This has been the usual practice.

Thus far we have dealt with the three principal financial advantages which the government owned corporation possesses over its administrative predecessors, namely, its fluid capital, serving as a reservoir on which it may draw for all expenditures, its borrowing power, enabling it to obtain credit in emergencies, and its freedom from the restrictions of government auditing and accounting. Important as are these factors in increasing the efficiency of the corporation, they may all be negatived and the purposes of the corporation completely frustrated if any outside pressure is allowed to divert the funds

[9] 40 U. S. Stat. at L. P. 651.

[10] Report of the President of the United States Shipping Board Emergency Fleet Corporation to the Board of Trustees. Government Printing Office, Washington, 1919. Pp. 14–20.

of the organization from the objects for which they were intended. This would seem to be fairly obvious yet in at least two cases such diversion has occurred. The first took place in 1920 when President Wilson established a High Cost of Living Bureau in the Department of Justice and ordered its expenses paid out of the funds of the Sugar Equalization Board. True, there were certain extenuating circumstances. The board had been created by the Food Administration with executive approval and its capital stock had been subscribed by the President out of his 50 million dollar emergency fund. He therefore had the power thru the appointment and removal of officers to dictate the policies of the corporation. In addition the board was in the process of liquidation and therefore its capital was not needed for new enterprises. Nevertheless its officers were in no way responsible for the activities of the High Cost of Living Bureau and it was an anomaly to place the burden of its financial support upon them.[11]

A second attempt was made to divert the funds of the corporation to other objects when the board was asked to take over several claims against the government which had arisen as a result of the unbusinesslike methods of the High Cost of Living Bureau. These were claims which could result only in a loss to be paid out of the corporation's surplus, and the members of the board therefore refused to

[11] Cf. *supra*, ch. vii., p. 17.

accept the liability. The claims were then taken to Congress and after two years of lobbying that body authorized the President to require the Sugar Equalization Board to assume these liabilities. If Congress felt that the claims were justified it might better have met the obligation by an appropriation. The public treasury would not have suffered, for any surplus accumulated by the board ultimately reverts to the government, and public policy would have benefited by the avoidance of a harmful precedent.

We turn now to those phases of administration which we have for convenience classified as business problems. They have to do with the *method* of conducting the corporation's work rather than the *means*. In this field it is claimed that the corporation facilitates the functioning of a governmental business enterprise first by permitting freedom of contract. Just as the keeping of government accounts is hedged about by laws, rules and regulations, so the making of government contracts is carefully and closely restricted. These requirements, useful as they may be in general, sometimes prove positively detrimental to the interests of the government. Take for example the rule that no government contract may be modified except in the interest of the government and that such a modification must be approved by the Comptroller General. This appears to be a perfectly safe and valid requirement but when enforced indiscriminately it may

work serious injury to the government. To illustrate, the Inland and Coastwise Waterways Service made a contract with a shipbuilding company in New Orleans for the remodeling of several barges. Under the terms of the contract the government agreed to deliver the barges to the company at a certain time and the company agreed to complete the remodeling before a specified date. Due to unavoidable circumstances the government was unable to deliver the boats at the time agreed upon and the company was therefore delayed in carrying out its part of the contract. The administrator in charge of the service, recognizing that the government was at fault, returned the $2,500 which the company had forfeited under the contract. The company was satisfied and so was the service. The Comptroller General however maintained that the contract had not been altered in the interest of the government and insisted that the penalty be recollected. This was done and as a result the company sued the service for $30,000 for failure to furnish the boats on time.[12] This situation would certainly have been avoided by the Inland and Coastwise Waterways Service had it been allowed the freedom of contract which it now has as a government owned corporation.

The other great advantage claimed for the cor-

[12] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. P. 156.

porate form of organization is its freedom from Civil Service restrictions. This was of particular value to the corporations formed during the war, first, because of the difficulty of securing workers under any conditions, and second, because of the unprecedented nature of the tasks which these agencies were asked to perform. The shortage of labor often made it necessary to employ workers whose ability was below the average and to utilize the services of men in fields for which they were poorly trained. Under these circumstances Civil Service standards would have been a handicap rather than a help. Add to this the difficulty of classifying in advance the new and changing positions which a war organization entails and the absurdity of applying Civil Service requirements becomes apparent.

It was assumed from the beginning that the creation of a corporate entity, either by executive order or by statute, freed the organization from all Civil Service restrictions. This was specifically stressed in some of the acts passed by Congress. The appropriation bill which authorized the formation of the Spruce Production Corporation states that civilians may be employed "in the manner customary in the conduct of ordinary business under corporate organization." [13] Such a provision is perfectly consistent with the general purpose for which these corporations were founded, namely, the desire to give them complete freedom in matters of detail

[13] 40 U. S. Stat. at L. P. 889.

and at the same time retain control of their general policy. However advantageous this freedom from Civil Service restrictions may be it is evident that it is less essential in time of peace than in time of war. Labor conditions are then more normal, industry is under less pressure, and the life of the community does not depend upon speed of production. Even under peace conditions however Congress has deemed it wise to allow its latest creation, the Inland Waterways Corporation, the same freedom which was exercised by the war-born corporations. In the words of the act the corporation "May appoint, fix the compensation of, and remove such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the corporation; define their duties, and require bonds of them, and fix the penalties thereof. . . ." [14] With our present limited experience we cannot perhaps say that this policy should be extended to all business enterprises which the government may in the future administer thru corporate agencies, but we are probably justified in saying that this is the logical method to be followed in the initial stages of such enterprises, and until a broader experience has shown to what extent the privileges of government owned corporations should be differentiated from those of privately owned corporations.

The third great group of administrative problems we have classified under the heading, responsibility

[14] 43 U. S. Stat. at L. p. 362. Sec. 5 (f).

and control. Since government owned corporations are given so large a measure of freedom in matters of detail it is doubly important that control over them be carefully exercised and responsibility for their administration fully fixed. This has generally been accomplished by designating some executive officer of the government, frequently a cabinet member, to act both as the incorporator and the authority responsible for the conduct of the corporation. This official exercises complete control over the policy of the corporation by virtue of the fact that he appoints and removes its officers and in the name of the United States holds and votes its capital stock. He chooses a subordinate to act as president of the corporation and delegates to him general administrative control of the organization. The president is thus directly responsible to the chief stockholder who in turn is responsible to the appropriating authority. When this plan of direct and undivided responsibility has been followed the administration of these corporations has been very successful. When it has been departed from, as it was in the organization of the Emergency Fleet Corporation, confusion and inefficiency have resulted.[15]

Turning now to the rôle of the directors of trustees of these corporations we find that the part they have played has usually been advisory rather than

[15] Cf. *supra*, ch. iii., pp. 5–7.

authoritative. As individuals they have frequently exercised great influence by holding the chief offices of the corporation but their power lay in the office rather than in the directorship and in either event their decisions were subject to the approval of the official who held the capital stock. In the case of the Emergency Fleet Corporation the situation was different, for here the corporation was created directly by the United States Shipping Board. The members of this board elected themselves trustees of the new corporation and as a group held the capital stock. They were therefore the final authority in both the formulation and execution of policy. This arrangement is exceptional however and has not been copied in any of the later corporations. A more typical example may be found in the recent organization of the Inland Waterways Corporation. Instead of creating a board of directors with no power to direct, the act provides for an "Advisory Board." This board is appointed by the Secretary of War and its powers are carefully restricted. In the words of the act "The board shall meet for organization purposes when and where called by the Secretary of War, and thereafter at such times and places as the Secretary deems necessary. The board shall consider matters submitted to it by the Secretary of War, and make recommendations thereon, and from time to time advise him and make recommendations in respect to the management and

operation of existing facilities, or the development and operation of new lines." [16]

The reason back of this strict limitation of the board's power was very clearly stated by John W. Weeks, then Secretary of War, before the Committee on Interstate and Foreign Commerce when that body was considering the bill creating the Inland Waterways Corporation. Referring to the board Secretary Weeks said, ". . . if the War Department is to be responsible for the conduct of this service, the Secretary of War must be the final authority, in my opinion. I do not want to be responsible for a thing that I can not direct. I will be perfectly willing to listen to and adopt any ideas which will promote the efficiency of this service, but I do not think I ought to be in a position—or any other Secretary of War, whoever he may be—of being entirely responsible for a service and not have entire control of it." [17]

While it is without doubt in the interest of efficiency, that the functions of the board be restricted as outlined above, it does not follow that the board is useless or of little value. The advisory function may prove very important, especially if exercised by men more familiar with the subject in hand than the person advised. Then too there may be a value and prestige attached to a group opinion which

[16] 43 U. S. Stat. at L. P. 362. Sec. 4 (d).

[17] Sixty-eighth Congress, First Session, House of Representatives. Hearings before Committee on Interstate and Foreign Commerce on H. R. 6647. P. 30.

does not inhere in an individual judgment. In addition there may be a geographical distribution of members on such a board thus avoiding the suspicion of localism. The director of the Inland Waterways Corporation, Colonel T. Q. Ashburn, when advocating an Advisory Board for this corporation, illustrated its usefulness as follows:

". . . there are many times when localities are strongly opposed to each other; where you will find one community thinks another community is being benefited at the expense of the first community; in such case you will find all the political influence they can bring to bear, both communities, is brought to bear upon the Secretary of War, or me, to upset me or Mr. Brent, the Federal manager. Somebody has to make a decision in this case."

"I go to the Secretary of War, state the case which I have investigated, and say, 'This is my recommendation'; no matter what that opinion is, one of the communities is hurt. If you have a board of advisors and there was, for example, a controversy between the city of Mobile and the city of New Orleans, and of the advisors one was from Birmingham, Memphis, St. Louis, and one from St. Paul, that matter would be laid before that board. It is an unbiased board, not locally swayed. They would say to the chairman of the board, 'We think this is a proper decision to make here.' Then he could go to the Secretary of War and say, 'This has been laid before the chairman and the majority

of the board says that is the proper thing to do.' When it is left in the hands of one individual to do this there is bound to be feeling, and when there is feeling there is opposition." [18]

The foregoing testimony indicates very clearly the value of an Advisory Board for the usual type of government owned corporation in which both the capital stock and the ultimate responsibility are held by an executive official not a member of the board.

Several other problems now confront us. We are concerned not only with the powers and value of such a board, but with the method of appointing its members, the number of these members, their remuneration and the length of their terms.

In the past these boards have been appointed in a variety of ways. The directors of the War Finance Corporation, an agency created by Congress, were appointed by the President with the advice and consent of the Senate. The directors of the Sugar Equalization Board, a creation of the Food Administration, were appointed by the President without the advice of the Senate. Four of the directors of the United States Grain Corporation were appointed by the President and these four were authorized to choose three others. The trustees of the Emergency Fleet Corporation were chosen by the United States Shipping Board and the Advisory Board of the Inland Waterways Corporation was appointed by the Secretary of War. In spite of

[18] *Ibid.*, pp. 103–4.

this apparent variety one general principle runs thruout. The appointing agent is the person or group of persons who holds or is responsible for the capital stock. This seems to be the best method of enlisting coöperation without the loss of responsibility, and thus far no valid objections have been raised against it.

There is also considerable unanimity as to the number of members which should be appointed. Every board has been small; the majority of them have had a membership of seven. This is a group large enough to represent several geographical divisions and various points of view, yet small enough to act quickly and efficiently.

As to the proper remuneration for the directors of these corporations no single standard can be laid down. The duties required of these directors vary so greatly with different corporations that what would be sufficient recompense in one case would be quite inadequate in another. The directors of the War Finance Corporation, for example, were expected to devote their entire time to the work of the corporation and therefore their salaries were fixed at $12,000 a year. The directors of the Inland Waterways Corporation, on the other hand, are not expected to devote any great portion of their time to its business and are permitted only a per diem allowance and traveling expenses. The war corporations were directed largely by "dollar a year" men who were paid only their expenses.

Remuneration however includes something more than salary and traveling expenses. There is a prestige and power attached to this type of position which is prized very highly by some men. In addition it offers valuable contacts and experience which may lead to larger opportunity in the future. This intangible remuneration coupled with a desire for public service has in the past induced many able men to accept directorships in government owned corporations and we may expect it to continue as a potent influence in the future.

In considering the length of term best adapted to this type of directorship we find no great difficulties involved. The chief object to be sought in this connection is continuity of policy. This may be achieved by long-term appointments and overlapping tenures. A five-year term has much to recommend it and if the board contains seven members the initial appointments can be made, two for one year, two for two years, one for three, one for four, and one for five years, with all succeeding members, except those filling vacancies, appointed for full terms. This arrangement makes possible a large number of changes in the early years of the corporation when there is greater chance that the members tried out in the new position may prove unsatisfactory. At the same time the length of the full term is sufficient to enable a director to become fully acquainted with the problems of the corporation and contribute a measure of experience to their

solution. The overlapping tenure has a tendency to prevent undue political influence or waves of popular fancy from suddenly overturning the established policies of the corporation.

Before leaving the problems of responsibility and control we should give some consideration to the relation of government owned corporations to the legislative branch of the government. We have spoken of their relation to the executive branch of the government thru their direct responsibility to the executive officer who is entrusted with the capital stock. No such direct responsibility to Congress exists. In fact one of the arguments advanced in favor of this type of agency is its freedom from Congressional interference. Nevertheless this freedom is not absolute. Congress is and must remain the policy determining branch of our government. Few would be willing to see it lose all control over any public agency. Least of all would Congress be willing to lose such control. Tho government owned corporations have been freed from certain forms of Congressional interference, they are by no means independent of ultimate Congressional control. While they are not dependent on Congress for annual appropriations, they may still be abolished altogether or their functions transferred to other agencies. Congress may by legislative act even direct the responsible executive to vote the capital stock of the corporation in accordance with Congressional policy. This was done re-

peatedly in connection with the War Finance Corporation, and once in connection with the United States Housing Corporation. In another instance pressure was brought to bear on the Sugar Equalization Board, a corporation which was not created by Congress but under the authority of the President of the United States, who financed it from the emergency fund which Congress had placed at his disposal. In this case Congress only *authorized* the President to direct the corporation to take certain action, but this customary courtesy in dealing with the President by no means indicates that Congress felt any hesitancy in dictating the policy of a corporation which it had not created. If the executive department had not been in accord with the legislative in this case it is doubtful whether the legislative will could have been enforced in the courts. The same doubt does not exist in connection with corporations created directly by Congress.

However, granting that Congress may by one means or another direct the policies of government owned corporations, they nevertheless possess a greater amount of freedom from legislative interference than does the ordinary administrative agency. This is because any interference by Congress with the corporate type of agency requires a positive legislative act. On the other hand Congress may not only interfere with but also completely cripple the usual administrative agency by a purely negative act, such as the failure to make an ap-

propriation or to authorize a specific expenditure. Freedom from this type of legislative action is almost essential to the success of a business enterprise. Even a government owned corporation however should be subject to control by a positive and deliberate declaration of legislative will.

We have endeavored in the present chapter to indicate the nature of the chief administrative problems which have thus far arisen in connection with government owned corporations. We have discussed the advantages, both business and financial, which these corporations possess because of their greater freedom, and the problems of responsibility and control which arise as a result of this broader freedom. We find much to support the contention that from an administrative standpoint the government owned corporation is a superior type of agency for dealing with a governmental business enterprise.

CHAPTER XII

LEGAL PROBLEMS

The chief legal problems which arise in connection with government owned corporations have to do with their incorporation, taxation, and suability. Let us consider first the problem of incorporation. The government owned corporations which have been created in the past have been incorporated either directly by Congress or by administrative officers whose power has been conferred by Congress. In either case the authority rests on the implied power of Congress to create any agency furthering an end authorized by the Constitution. The implied power of Congress to create any instrument facilitating the exercise of an expressed power was not universally accepted in the early years of the government. Altho Congress created the first Bank of the United States in 1791 under this implied power, its competence to do so was not firmly established until Marshall handed down his famous decision twenty eight years later in McCulloch v. Maryland.[1] In the words of this decision, "Let the end be legitimate, let it be within the scope of the Constitution, and all means which

[1] McCulloch *v.* State of Maryland et al. (1819) 4 Wheat. 316.

are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are Constitutional." This language gave ample latitude for the creation of any type of corporation which would further the exercise of a constitutional power. In other words the creation of a corporation is only a means to an end. It is the end which must be examined to determine its constitutionality.

In the McCulloch case the fiscal powers of Congress were invoked to sustain the creation of a corporation. The regulation of commerce clause has been invoked with equal success. The first case of federal incorporation under this clause occurred in 1862 when Congress incorporated the Union Pacific Railroad. This act was sustained in 1887 in California v. Pacific Railroad Companies.[2]

The right of Congress to establish corporations has thus been recognized for many years. The new factor of public ownership which entered in when government owned corporations were created did not invalidate the basic principle upon which privately owned corporations created by the federal government had been held constitutional. When the constitutionality of the act establishing the Federal Land Banks was argued before the Supreme Court in 1920, at which time the banks were owned largely by the United States, there was no question as to the general power of Congress to establish

[2] California *v.* Pacific Railroad Co. (1888) 127 U. S. 1.

corporations or as to the ownership of their capital stock. The only question was whether or not they served a public purpose and could therefore be considered government agencies whose bonds Congress might free from state and local taxation. The court held that they did serve such a purpose and that the act was constitutional.[3]

A somewhat different situation arises when Congress itself does not create the corporation but authorizes an administrative officer or board to form a corporation under the laws of a state. There is then no question of the authority of Congress to create the corporation for it is the state and not the federal government which gives it birth. A more complicated question immediately arises as to jurisdiction. Tho the corporation is a creature of the state it is at the same time an agency of the federal government. This overlapping of jurisdiction has been the cause of some friction in the past and may prove a fruitful source of conflict in the future. Congress can avoid this difficulty either by providing for incorporation in the District of Columbia, as was done in the case of the Emergency Fleet Corporation, or by passing a special act of incorporation, as was done in creating the War Finance Corporation and the Inland Waterways Corporation.

Incorporation under the general incorporation

[3] Smith *v.* Kansas City Title & Trust Company et al. (1921) 255 U. S. 180.

law of the District of Columbia confers no rights or privileges not obtainable by state incorporation, in fact it entails some disabilities not found under most of the state laws. It does, however, in the case of corporations which are agencies of the federal government, do away with overlapping jurisdiction.

Direct incorporation by act of Congress has both advantages and disadvantages. It necessitates writing into each act thus passed a complete list of the powers and privileges conferred and the limitations and restrictions imposed on the corporation. At the same time it permits a degree of flexibility often desirable in creating corporations as widely different as the Inland Waterways Corporation and the Federal Intermediate Credit Banks. The number of government owned corporations will probably never be so large that the writing of an individual act for each corporation will prove a burden upon Congress. Altho there seems to be no need for a general incorporation law for government owned corporations at the present time, our experience to date does warrant the formulation of certain general principles which should be followed in the framing of each individual act.

First of all the terms of the act should be liberal, conferring upon the responsible administrator broad power of action and wide discretion as to ways and means of exercising that power. Second, the administrator charged with responsibility should be the official who holds and votes the capital stock of

the corporation, thus avoiding all danger of divided responsibility. Third, the act should provide that the corporation, when acting in a commercial capacity, be subject to all the laws, rules, and regulations governing private business transactions. And lastly the act should stipulate the kind and degree of state and local taxation which the federal government is willing to permit. These then are the basic provisions which should be written into every act. They are designed primarily for the purposes of placing government owned corporations on an even footing with privately owned corporations. All restrictive provisions not essential for the protection of the public interest should be carefully avoided since they tend to eliminate the very factors which make a corporate type of agency desirable.

We turn now to the problem of taxation. Since government owned corporations are government agencies we must again go back to McCulloch v. Maryland for the first judicial pronouncement on the subject. In this case the tax which Maryland had placed upon the note issues of a branch of the United States bank located in that state was held unconstitutional on the ground that the power to tax is the power to destroy and if exercised by the states upon the instrumentalities of the federal government would rob that government of the supremacy which the constitution has conferred upon it. Justice Marshall sums up the opinion in these words,

"—the states have no power by taxation or otherwise, to retard, impede, burden, or in any manner control, the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general government." The court was careful to state however that this opinion did "not extend to a tax paid by the real property of the bank, in common with the other real property within the state, nor to a tax imposed on the interest which the citizens of Maryland may hold in this institution, in common with other property of the same description thruout the state," but only to a tax on the operations of the bank.[4] The distinction between a tax on the operations of the bank and a tax on its real estate is justified on the ground that the former may impair its efficiency as an agent of the federal government while the effect of the latter may be negative or purely incidental.[5] Even the latter type of tax is usually held unconstitutional however in the absence of express Congressional permission. The courts have been very consistent in their refusal to uphold any legislation in the field of taxation or elsewhere, which might interfere with the functioning of a federal agent.[6] On the other hand federal agents are subject to many state laws

[4] McCulloch *v.* State of Maryland et al. (1819) 42 Wheat. 316.

[5] Railroad Company *v.* Peniston (1873) 18 Wall. 5.

[6] Farmers' and Mechanics' National Bank *v.* Dearing (1875) 91 U. S. 29.
Owensboro National Bank *v.* Owensboro (1899) 173 U. S. 664.
Easton *v.* Iowa (1903) 188 U. S. 220.
Dolly *v.* Abilene National Bank (1910) 179 Fed. 461.

which the courts do uphold, for example, laws dealing with the construction of contracts, the acquisition and transfer of property, and the collection of debts.[7]

A state or local tax on the real estate of a federal agency other than a bank is also unconstitutional if the acquisition and management of this property is an essential function of the agency and is used solely for public purposes. It was so held when a county in the state of Washington sought to tax shipyard property belonging to the Emergency Fleet Corporation [8] and again when a county in Oregon endeavored to tax the land, forests, and other property belonging to the United States Spruce Production Corporation.[9] In short it is not the type or character of the local law that guides the court in its decisions but rather the effect which it has on the federal agency, and in dealing with tax laws it is inclined to uphold only those for which Congress has specifically provided.

This inability of the state or any of its subdivisions to tax the property of a federal agency produced a curious situation in connection with the

[7] National Bank *v.* Commonwealth (1870) 9 Wall. 353.
Waite *v.* Dowley (1876) 94 U. S. 527.
Hawley *v.* Hurd and the Russell Lumber Co. (1900) 72 Vt. 122.
Clement National Bank *v.* State of Vermont (1913) 231 U. S. 120.

[8] King County, Wash., et al. *v.* United States Shipping Board Emergency Fleet Corporation (1922) 282 Fed. 950.

[9] United States Spruce Production Corporation *v.* Lincoln County (1922) 285 Fed. 388.

United States Housing Corporation. Most of the housing projects of this corporation were of necessity located within the limits of various municipal jurisdictions. The corporation had authority to purchase land, erect houses, and provide all needful public utilities therefor. As a matter of economy however it was highly desirable that the public utilities of the surrounding or neighboring community be extended to these new developments. The law authorizing the creation of the Housing Corporation had failed to include any provision for state or local taxation. In the absence of such a provision the municipalities were powerless to assess either the original cost or the upkeep of any public utilities upon the property of the Housing Corporation. They were therefore extremely loath to extend these facilities to the new communities. The United States Housing Corporation recognized the injustice of placing this burden on other property and was perfectly willing to pay the normal rate of taxation and assessment for these utilities. But as this could not legally be done a plan was devised which would accomplish the same ends and still not subject the federal agency to the arbitrary will of local authority. This plan consisted in placing the relations of the city and the corporation on a contractual basis, the city agreeing to provide the property of the corporation with all the public utilities and protection which it afforded to privately owned property, and the corporation in turn agree-

ing to pay for these utilities a sum equal to the amount of taxes which would be assessed upon this property were it not in the hands of a federal agency. This proved to be a very satisfactory arrangement and enabled the corporation to obtain public utilities without the expense of building new plants, and without placing unjust burdens on the communities concerned.[10]

While it is no longer open to question that government owned corporations, in the absence of Congressional authorization, are beyond the taxing power of state and local jurisdictions, it by no means follows that they are free from federal taxation. True, most of the government owned corporations have never been troubled with this problem, because they have never been blessed with a net income. The Panama Railroad Company however has consistently returned a profit on the investment and pays both a capital stock and federal income tax.[11] Since all the profits of this corporation automatically revert to the United States as the sole stockholder, the tax is of no particular benefit to the government, but neither is it of any particular harm. It does serve to place the corporation on a more equal footing with private corporations and perhaps furnishes a better basis for judging of its operative efficiency.

[10] Report of the United States Housing Corporation. Government Printing Office, Washington, 1920. Vol. 1, pp. 348–9.

[11] Poor's *Manual of Railroads*. Poor's Publishing Co., New York. 1923, p. 350. 1924, p. 478.

One further problem remains to be discussed, the suability of government owned corporations. The theory was originally advanced that inasmuch as these corporations were owned by the United States, and were clothed with vast power to act as agencies of the United States, they therefore partook of the sovereignty of the federal government, and were immune from suit or other legal process, except on the terms and conditions laid down by the federal Congress. In conformity with this view the Emergency Fleet Corporation maintained that all suits against it must be brought in the Court of Claims. The corporation was extremely anxious that this view be sustained by the courts for it had a vast amount of litigation pending in all parts of the United States the handling of which would be greatly simplified under a single jurisdiction. There was however no clear cut pronouncement on the subject by the courts until May 1, 1922, when the Supreme Court handed down its decision in Sloan Shipyards Corporation v. United States Shipping Board Emergency Fleet Corporation.[12] The case had been brought originally in a federal district court and had been dismissed by that court on the ground that it should have been brought in the Court of Claims. The Supreme Court reversed this decree and maintained that the Emergency Fleet Cor-

[12] Sloan Shipyards Corporation et al. *v.* United States Shipping Board Emergency Fleet Corporation and the United States (1922) 258 U. S. 549.

poration, tho an agent of the government, clothed with very great powers, was nevertheless answerable for its acts as was any other corporation. The fact that it was a corporation and that its stock was owned by the government did not in any way relieve it of responsibility, or make it immune from ordinary suit. A government owned corporation was thus recognized as an autonomous organization with a legal status separate and distinct from the government which owned it.

The same principle was followed by the courts in dealing with the exemption of government owned vessels from arrest and seizure. The line was drawn not on the basis of ownership but on the public or private character of the service in which they were engaged. Vessels engaged in public service have nearly always been held immune from arrest and seizure in the United States, also in England. As early as 1824 however a distinction was drawn between government and commercial service. Marshall in The Bank of the United States v. The Planters' Bank of Georgia declared that "when a government becomes a partner in any trading company, it divests itself, so far as concerns the transactions of that company, of its sovereign character, and takes that of a private citizen. Instead of communicating to the company its privileges and its prerogatives, it descends to a level with those with whom it associates itself, and takes the character which belongs to its associates, and to the

business which is to be transacted." "As a member of a corporation a government never exercises its sovereignty. It acts merely as a corporator, and exercises no other power in the management of the affairs of the corporation, than are expressly given in the incorporating act." [13]

Congress evidently desired to preserve this distinction for it inserted in the Shipping Board Act of Sept. 7, 1916, the provision that vessels purchased, chartered, or leased by the board, "while employed solely as merchant vessels shall be subject to all laws, regulations, and liabilities governing merchant vessels, whether the United States be interested therein as owner, in whole or in part, or hold any mortgage, lien, or other interest therein." [14] This provision was reënacted by the Act of July 15, 1918, [15] amending the Shipping Board Act, and in the Lake Monroe case [16] was held to apply to a vessel requisitioned and completed by the Emergency Fleet Corporation and operated by the Shipping Board thru the corporation. In this case the Lake Monroe, while engaged in the coastwise carriage of a cargo of coal, under a charter made by the Emergency Fleet Corporation with a private company, collided with the fishing schooner, *Helena,* the master of which libeled

[13] Bank of the U. S. *v.* Planters' Bank of Georgia (1824) 9 Wheat. 907–8.

[14] 39 U. S. Stat. at L. P. 728.

[15] 40 U. S. Stat. at L. P. 900.

[16] The Lake Monroe (1919) 250 U. S. 246.

the vessel in the United States District Court for Massachusetts, and sought to have her seized and attached to satisfy a claim for damages. Counsel for the United States argued that, as the steamer was the property of the United States and in its possession and control, the court was without jurisdiction to enforce claims against her by process. The court held that the intention of Congress was clear as to vessels employed solely for commercial purposes, that the *Lake Monroe* was so employed, and that process was enforceable against her by ordinary admiralty procedure, and in this decision it was upheld by the Supreme Court of the United States.

In the light of this decision it was evident that any of the vessels of the Emergency Fleet Corporation employed in commercial service might be libeled and held up at any time by in rem proceedings. Such proceedings in admiralty are justified ordinarily on the ground that they furnish an injured party with a convenient and easy means of redress inasmuch as a ship is tangible property which can be quickly located and attached and for the release of which the owner will readily furnish bonds. The force of these arguments is greatly weakened however in the case of government owned ships, for the government can always be located and there is no question of its ability to pay a claim. The officials in charge of the government's merchant marine therefore requested Congress to provide an alternative method of procedure which would

eliminate the possibility of delay and annoyance in the government's commercial shipping program. This request was complied with in the Act of Mar. 9, 1920, which provides that hereafter no vessel in the possession of or owned by the United States or any corporation in which the government owns the entire capital stock, or any vessel operated by or for the United States or such corporation, shall be subject to arrest or seizure by judicial process in the United States or its possessions, with the exception of vessels belonging to the Panama Railroad Company.[17] In place of such process in rem the statute permits a libel in personam to be brought in the district court against the United States or the corporation concerned. The libel is to be served on the United States Attorney for the district and a copy mailed to the Attorney General of the United States. Neither the corporation nor the United States is required to give bond, but the accounting officers of the government are authorized to pay any judgment which may be rendered against the United States and a standing appropriation is provided therefore.

The exception of vessels belonging to the Panama Railroad Company from the provisions of the foregoing act leaves the property of this government owned corporation with its status unchanged. That is, the corporation may be sued and its property attached in the same manner as if it were

[17] 41 U. S. Stat. at L. P. 525

privately owned. That its legal status was in no way changed when the government acquired its capital stock is clearly demonstrated in Panama Railroad Company v. Curran.[18] In this case an action for damages was brought against the company by a Mrs. Curran, who had slipped on a freshly oiled floor while in a commissary operated by the corporation. She attributed the injury which ensued to the negligence of the company in allowing the floor to be in a slippery condition. The company sought to question the suit on the ground that it operated the commissary not under the provisions of its charter but merely as an agent of the government. The court held that the corporation owned the property and was therefore completely responsible for its proper administration.

One other aspect of a government owned corporation's liability to suit should be mentioned, namely, the liability of a corporation as distinguished from the liability of its officers. It is a well established legal principle in this country that the government itself cannot without its consent be held liable for a tort. Its agents however are in no sense immune from such liability unless it can be shown that the act causing the injury was a justifiable one committed in the line of duty. This applies whether the agent be an individual or a corporation. But in the latter case it is the corporation, itself, which is the agent, and not its officers or directors. An agent of the

[18] Panama Railroad Co. *v.* Curran (1919) 256 Fed. 768.

corporation is not an agent of the government.[19] It follows therefore that the officers of a government owned corporation, tho acting in the name and with the authority of the corporation, are not personally liable for their acts, as they would be did the corporation not stand between them and the government. This is considered a material advantage by administrators charged with these responsibilities.

We may now sum up the outstanding facts in the legal status of government owned corporations as follows. Incorporation in the District of Columbia or by direct act of Congress is preferable to state incorporation inasmuch as it avoids a possible conflict between state and federal jurisdiction. Taxation of government owned corporations by state or local units, in the absence of special authorization by Congress, is unconstitutional. On the other hand suit may be brought against government owned corporations in the same manner as against privately owned corporations with the exception of the special procedure provided for government owned ships. In other words the private character of these corporations has been emphasized with respect to suability, while their public character has been stressed with respect to taxation.

[19] United States *v.* Strang et al. (1921) 254 U. S. 491.

CHAPTER XIII

FUTURE OF GOVERNMENT OWNED CORPORATIONS

We have now traced the history of all the government owned corporations, analyzed their individual failures and successes, and pointed out the administrative and legal problems which they have in common. We are therefore in a position to draw certain conclusions as to government owned corporations in general, and on the basis of these to indicate the probable development and usefulness of this type of administrative agency in the future.

In drawing these conclusions certain facts should be kept constantly in mind. First of all, since our experience with non-war corporations has been both brief and limited, we are forced to depend largely upon our experience with war-born corporations. These were without exception of an emergency character and by virtue of that fact they operated under conditions which were not only abnormal but in most respects highly disadvantageous. There were four major difficulties with which these corporations had to contend, each of sufficient magnitude to menace the success of the undertaking. Let us review them briefly.

They were faced in the first place with a financial

condition unprecedented since the Civil War. Prices were higher than they had been for half a century and there was no way of knowing when the upward climb would end. This made it necessary to pay unheard-of prices for both labor and material, and complicated every financial arrangement into which the corporations entered. In the second place neither a sufficient quantity or quality of labor could be obtained even with the tremendous premium paid in wages. The war had cut off immigration and the draft had reduced the domestic supply. A thousand expanding industries competed for the laborers who remained. They were drawn into occupations for which they were unsuited and untrained. Their inexperience cost every employer dearly and the government corporations, coming late into the field, fared worse than the rest. In the third place the work of the corporations was everywhere hampered by a shortage of materials. This was an inevitable concomitant of a shortage of labor and was aggravated both by our own war consumption and by the demands of our allies. Finally, each of the foregoing difficulties was accompanied and accentuated by the ever present, ever pressing necessity for speed.

In the face of such obstacles, these new governmental agencies, tho still in the experimental stage, not only made progress, but in some cases achieved results which are truly remarkable. The War Finance Corporation kept essential industries on their

feet and furnished them credit for much needed expansion at a time when other industries were faltering or at a standstill because of inability to obtain new capital. Tho subject to constant pressure from industries of every type and description, it loaned its money conservatively and accumulated a surplus. In the post-war reconstruction period, at the direction of Congress, it turned its energies to new tasks and accomplished them with equal success. The Emergency Fleet Corporation supervised the standardization and construction of a thousand ships, vessels both staunch and serviceable, tho not all adapted to compete in an over crowded post-war market with vessels built only for peace-time purposes. The United States Grain Corporation handled over half a billion bushels of grain for ourselves and our allies, kept the price of wheat up to the guaranteed level, and at the same time used its influence to prevent the price rising beyond the reach of the buying public. In this gigantic undertaking, tho profits were not its aim, it accumulated a surplus of twenty eight millions. The Sugar Equalization Board, by striking a differential between the cost of production in the United States and in Cuba, protected the consumer against speculation, stimulated the industry, equalized the price, and declared a dividend of forty million. The United States Housing Corporation, in a period of a few months, with neither adequate labor or material, constructed homes for forty thousand workers in the places

where they were most needed and where no private agency would undertake the task.

In the light of these accomplishments it is no far cry to say that these government owned corporations clearly demonstrated their efficiency, both in minimizing losses where the government felt it necessary to undertake uneconomic enterprises, and in returning a dividend where the nature of the enterprise was such as to justify a profit. This efficiency was obtained, not by long experience in the operation of government owned corporations, but by adopting the methods and profiting by the experience of privately owned corporations of a similar nature. Furthermore these advantages were obtained without sacrificing public control over general policy, but by voluntarily surrendering such control over matters of administrative detail.

Since government owned corporations have proved themselves efficient agencies for the administration of business enterprises their future seems assured. The business functions of government are constantly increasing. In the not distant future they threaten to overshadow all other functions. It is doubtful if these new burdens can be handled under the conventional system of boards and bureaus. These agencies are already overburdened with tasks to which they are not organically adapted. The logical solution is to place future business enterprises under the control of agencies specifically designed to utilize and profit by modern business

methods and experience. Government owned corporations are so designed. However much they may vary in this or that particular, each has a capital stock or reservoir of funds on which it may draw in sudden and unexpected emergencies, each is controlled in its general policy by the ownership of this capital stock, and each is left free to work out its own salvation in matters of administrative detail.

It is true that some of these results are attainable by other methods. It is possible to substitute for the capital stock a revolving fund and place it at the disposal of an officer vested with large discretionary powers. Special legislation may also authorize claimants to bring suit against such an officer rather than against the government. Congress may by specific provision even remove certain general restrictions which are deemed advisable in administering non-business enterprises. All these things may be done at the expense of much effort and trouble and individual adjustment. But the same results may be attained more easily, together with certain additional advantages, by the establishment of government owned corporations.

These corporations furnish the most convenient method of enabling the government to do business in accordance with traditional commercial practices. The methods of business procedure common to private commercial corporations are known to all. The rules of law applicable to them have been

carefully adjudicated in the courts. Their rights, privileges, and obligations are matters of record. In dealing with them the average business man feels much more at home than in dealing with a government bureau. All these advantages of privately owned corporations are inherent in government owned corporations. Even the name, corporation, has a certain psychological value. It sets an agency apart from other governmental agencies, and emphasizes its commercial character. It encourages efficiency and discourages political interference. Such conditions are esesntial if the government is to receive the maximum return from its investment in business projects.

The extent and scope of the government's financial interest in commercial fields at the present time is little realized. Thru departments, bureaus, and commissions, it is operating hundreds of business enterprises. It still owns and administers 189 million acres of public domain, a vast and far flung heritage, tho only a remnant of the empire it has given away.[1] It maintains a Reclamation Service which operates twenty five major projects and forty minor ones.[1] It owns and administers 148 national forests containing 156 million acres, a preserve equal to the entire area of Illinois, New York, Pennsylvania, Virginia, Ohio, Massachusetts, Connecticut, and New Jersey.[1] It spends almost a mil-

[1] Thompson, Carl D. *Public Ownership.* Thomas Y. Crowell Company, New York, 1925. Pp. 34, 22, 36, 38, 56.

lion a year on its 63 national parks of which about forty per cent. is returned in revenue. It built and now operates 500 miles of railroad in Alaska. At a cost of 400 million dollars it constructed and now owns the greatest single piece of engineering in the world, the Panama Canal. It owns and operates the largest publishing plant in existence, the Government Printing Office, with an output of over a million pieces of printed matter a week.[2] Its greatest business achievement however is the administration of our postal service. This department with its 300,000 employees and 52,000 post offices handles 20 billion pieces of mail annually at a cost of over half a billion dollars.[2]

The foregoing citations by no means exhaust the list of governmental business enterprises, but they serve to indicate the magnitude of the government's interest in this field. And it is quite probable that in the future this type of governmental activity will be extended even further. No one can foresee the ramifications of future government ownership. It has already been suggested with some seriousness that the government should take over the railroads. The experience of other countries indicates a strong tendency in that direction. Fifty four nations now have public ownership of at least part of their railroads. Canada, where conditions most nearly approximate those in the United States, has 23,000 miles of government railways.[2] Outside of the

[2] Thompson, Carl D. *Op. cit.*, pp. 71, 5, 73, 80.

United States more than half of all railroad mileage is publicly owned. The time may come when, in the interest of the general welfare, it will be necessary for our government to follow the example of other governments and take over some of the great public industries, such as the railroads, telephones, or telegraph. If this situation should arise, government owned corporations, with organizations resembling those of the preëxisting private corporations, would be the logical units to which the task of administration should be entrusted.

At this point it is perhaps appropriate to offer a word of warning. Several proposals have been advanced in the last year or two to undertake economic experiments of a radical or untried nature thru the agency of government owned corporations. For example a bill was introduced in the Sixty eighth Congress providing for the establishment of an Agricultural Export Corporation.[3] The corporation was to be created with a capital of 200 million dollars for the purpose of purchasing as much of the surplus of any agricultural commodity as should be necessary to maintain the domestic price at a proper ratio with respect to the price of other commodities. This price was to bear the same relation to the ten-year pre-war average for this commodity as the general average for all commodities bore to the pre-war average for these same commodities. Whatever may be the merits of such a plan from the

[3] H. R. 9033 (McNary—Haugen Bill).

standpoint of public policy, it should be clearly recognized that economically it is an undertaking of an experimental character which may prove to be only an agricultural subsidy under another name.

In the same Congress a plan was brought forward for the creation of an organization to be known as the Federal Power Corporation. This action was proposed by the Senate Committee on Agriculture and Forestry of which Senator Norris is chairman. The committee in reporting on H. R. 518, which was the House bill authorizing the sale of the Muscle Shoals project to Henry Ford, a well known automobile manufacturer, recommended that all after the enacting clause of the House bill be struck out and that the Norris plan be substituted. This plan provides for a government owned corporation, to be managed by three directors appointed by the President with the advice and consent of the Senate. These directors are to hold office on good behavior at an annual salary of $7,500, and are removable at any time by a concurrent resolution of Congress. The function of the corporation is to own and operate the power plant at Muscle Shoals and to supervise the sale of the electricity developed. A portion of the power is reserved for the nitrate plants, which are to be operated under the direction of the Secretary of Agriculture. All surplus power is to be disposed of as the corporation may see fit with the general proviso that the corporation is to seek as wide a distribution as possible at the lowest

practical cost. Some three and a half million dollars, received by the United States from the sale of the Gorgas Steam Plant to the Alabama Power Company, together with other proceeds from the sale of surplus material at Muscle Shoals, is to constitute the operating capital of the corporation and this is to be supplemented by the net profits of the enterprise until it reaches a total of twenty five million. Thereafter the profits are to be turned over to the United States Treasury. This in the main is the plan recommended by the Senate Committee on Agriculture and Forestry.[4] It was not adopted by the Sixty eighth Congress and its adoption by the Sixty ninth appears doubtful. Whatever the outcome may be, it is clear that this proposal does not fall in the same category as does the Agricultural Export Corporation for it involves no new economic theory of stabilizing the price relation of commodities regardless of oversupply.

In conclusion it should be noted that criticism of the above proposals, like the criticism of already existing corporations, is largely directed against the underlying economic theory or the policy involved in the work of the corporation, rather than against the corporation as an administrative unit for carrying out that policy. As to the wisdom or unwisdom of a particular policy there will always be disagreement. This is in no wise relevant to the merits of the corporate type of organization. For

[4] Sixty-eighth Congress, First Session. Senate Report No. 678.

example there has been much loose criticism in recent months of the Emergency Fleet Corporation and the United States Shipping Board. Those who are anxious for the government to get out of business, especially if it is their line of business, insist that its ships should be sold more rapidly, those who oppose this step complain of the low prices which the vessels are bringing. Both sides talk of abolishing the Shipping Board because its members are not always able to agree on a particular course of action. The Shipping Board was not designed to be an organization which would always agree. The membership was purposely apportioned among various geographical divisions of the country that all interests might be represented. As the board consists of an odd number of members there is no chance of a deadlock and the majority opinion must of necessity prevail. Amidst all this apprehension and misapprehension with regard to economic theory and policy there is a surprising lack of criticism of the corporate type of organization as a governmental administrative unit. Its efficiency from this viewpoint seems to have been clearly demonstrated. It is true that an enterprise inherently uneconomic or a policy essentially unwise cannot be made successful by administering it as a government owned corporation. There is no magic in the name. But a business fundamentally sound in which the government finds it desirable to engage has a better chance of efficient and successful administration in the

character of a government owned corporation than under any other form of administrative agency which has yet been devised. The development of this new agency represents therefore a substantial advance in the science of administration.

INDEX

accounting, 2, 240, 241, 263, 264
administration, 2, 50, 53, 54, 112, 242, 258-279
administrators, 1, 48, 49, 50, 111
agencies, 1, 255, 261, 299
Agricultural Credits Act, 134, 199
Agricultural Export Corporation, 13, 303-304
Agricultural Loan Agencies, 132
appropriation, 2, 14, 98, 99, 168, 214, 221, 259, 260
authorization, 3, 121, 178, 222 249
autonomy, 1

Bank of North America, 227-230, 257
Bank of the United States, 8, 230, 280
banking corporations, 7
beet sugar, 176
board of directors, 13, 39, 85, 122, 124, 239, 255, 270-277
boards, 1, 63, 223, 251
bonds, 19, 34, 35, 40, 41, 130, 250
borrowing, 14, 98, 128, 261, 262
budget, 14
Bureau of Industrial Housing, 146, 151
bureaus, 1, 255, 258
Burr, Aaron, 7
business, 2, 4, 6, 7

capital stock, 2, 11, 18, 19, 22, 23, 36, 45, 97, 100, 116, 117, 122, 127, 179, 199, 201, 223, 228, 249, 250, 256, 260
charitable corporations, 6
charters, 4
Civil Service, 14, 250, 268
claims, 189
Colombia, 234, 235, 236, 237, 241
commissions, 1, 301
compensation, 14
Comptroller General, 222
Congress, 2, 12, 13, 24, 164, 187, 193, 194, 223, 259, 262, 277-279, 280
Constitutionality, 38
contracts, 144, 160, 253, 266, 267
control, 2, 13, 36
Council of National Defense, 141, 144, 151, 206, 243
Cuban sugar, 172, 175, 177, 180, 181, 184

debts, 9, 261
departments, 2
District of Columbia, 14, 45, 282, 283
dividends, 14, 232
Dutch East India Company, 5

East India Company, 4
ecclesiastical corporations, 6
educational corporations, 6

educational work, 26, 94, 95, 106, 165
Emergency Fleet Corporation, 10, 43-80, 249, 286, 289, 292, 298, 306
Emergency Shipping Act, 46

Fair Price Committee, 87
Farm Loan Commissioner, 17
Federal Control Act, 211, 212
Federal Farm Loan Act, 10, 17, 24
Federal Farm Loan Board, 17, 18
Federal Farm Loan Bureau, 17, 39
Federal Intermediate Credit Banks, 12, 134, 198-205, 262
Federal Land Bank districts, 18, 20
Federal Land Banks, 10, 16-42, 124, 198, 281
Federal Power Corporation, 13, 304-5
Federal Reserve Banks, 17, 23, 124, 200
flexibility, 2
Food Administration, 83, 84, 86, 174, 175, 180, 184, 185
Food Control Act, 82, 87, 92, 181, 186
France, 225

Germany, 225
government, 18
Government Printing Office, 302
Grain Corporation, 11, 81-120, 170, 262, 298
Grain Threshing Division, 104, 105
Greek corporations, 3

High Cost of Living Bureau, 189, 265
hotels, 166
Housing Corporation, 11, 139-169, 287, 298
Hudson Bay Company, 5
Hudson, Henry, 6

incorporation, 8, 14, 84, 179, 223, 233, 250, 280–284
Inland Waterways Corporation, 12, 206-226
insurance companies, 7
Interstate Commerce Commission, 45, 210, 213
Isthmian Canal Commission, 238, 239, 240

liability, 9, 14, 123
loans, 37, 38, 41, 124, 125, 129, 133, 136, 147, 201, 202, 204
loss, 165, 192, 219, 220, 265

Manhattan Company, 8
manufacturing, 7, 8, 9, 183
merchant marine, 44, 76, 77
Mississippi River, 207, 210, 215, 219, 223, 225
municipal corporations, 6
Muscle Shoals, 13

National Farm Loan Associations, 18, 19, 24, 25, 26-34, 39
New York Barge Canal, 209, 210, 214, 215, 218
number of corporations, 9

officers, 14, 17, 22, 48, 49, 50, 53, 111, 117, 141, 153, 179, 224, 270
organization, 51, 53, 112, 122, 153, 154, 201

origin, 3, 121
ownership, 2

Panama, 236, 237, 241
Panama Canal, 47, 257, 302
Panama Railroad Company, 233-242, 257, 288, 293
personnel, 13, 63
Philadelphia Contributionship, 6
Plymouth Company, 5
policies, 2, 73, 125, 147, 162, 172, 216
politics, 1
Potomac Company, 231
powers, 4, 46
President, 45, 46, 49, 83, 87, 89, 97, 118, 119, 186, 188, 193
profit, 100, 118, 127, 129, 137, 157, 167, 185, 196, 199, 204, 219, 288
public, 2, 232
public service corporations, 6, 7

religious corporations, 3, 4
Roman corporations, 3
Russian Bureau, Inc., 255-257

salaries, 17, 122
Second Bank of the United States, 231
ship-building, 43, 44, 54-59, 67, 68, 79, 80
Shipping Board, 11, 208
Spruce Production Division, 243, 244, 245, 248
standards, 149, 150
steamship lines, 71, 72
stock, 2, 16, 153, 234
stockholder, 40, 153, 201
suability, 14, 289-295
submarine campaign, 47
Sugar Equalization Board, 11, 170-197, 266, 278, 298
surplus, 14

taxation, 9, 14, 123, 200, 254, 284-288
Transportation Act of 1920, 216
Treasury, 14, 22, 38, 263, 266

United States Railroad Administration, 128, 158, 211, 213
United States Spruce Production Corporation, 242-255, 262, 263, 286
United States Shipping Board, 45, 46, 48
United States Steel Corporation, 11

Virginia Company, 4
voting, 19

War Finance Corporation, 11, 121-138, 198, 262, 278, 297
War Industries Board, 158
Warrior River, 207, 212, 219
War Trade Board, 255
water supply companies, 6, 8
welfare work, 64-66
wheat, 81, 88, 89, 90, 95, 101, 103, 115, 116
Wheat Director, 99, 100, 103
World War, 10, 81, 139, 243

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